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China CITIC Bank
London Branch

Credit Approval and Credit Risk Management Policy

Document History

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Version	Owner	Approval	Date	Major changes
1.0	President	President	May 2018	PRA Regulatory Business Plan
1.1	CRO	MANCO	Oct 2018	As per approval 24/10/2018
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2.3	CRO	ARCo	Oct 2020	• Change approval to ARCo (6/10) • Credit mitigation not substitute for credit assessment (14) • Credit mitigation – collateral management process (15) • Credit Principles – know your customer (18) • Legal documents- DAC 6 requirements for documentation (19) • Legal documents – Waivers and other changes, process to review/approve (20) • Legal documents - arm's length requirements (20) • Credit classifications – downgrading and up-grading process (22) • Credit classifications – NPL management process and strategies (23) • Credit Administration – post loan management process (25) • Post Loan Management – early warning signals and monitoring (26) • Overdue review requirements (28) • Credit Application template update (37) • Annual Review template (39) • Amendment/Waiver/Consent/Extension template (46) • Stage 3 – impairment decisions (63)

CONTENT

1 Introduction

This document sets out the approach adopted by China CITIC Bank London Branch (“CNCBLB” and / or “the Branch”) for credit approval and credit risk management.

This policy applies across all relevant products and counterparty types. Where this policy imposes more stringent requirements than other policies, including any applicable at Head Office (“HO”), the requirements of this policy will take precedent.

2 Objectives

The objectives of this framework document are to:

- Document, at a high level, how CNCBLB extends credit and manages Credit Risk;
- Assign ownership and accountability for the maintenance of the Credit Policy document; and
- Support the implementation of CNCBLB’s Risk Appetite as it applies to Credit Risk.

It is the responsibility of the Risk Management Department (“RMD”) to identify, manage and monitor inherent and emerging Credit Risks and to ensure the implementation and maintenance of prudent credit risk standards.

3 Policy Ownership/Oversight

The 'chain' of ownership and oversight of this policy is set out below:

Document Owner	The Branch's Chief Risk Officer ("CRO") is responsible for the maintenance for this policy. The CRO will also be responsible for reviewing the ongoing adequacy of the policy and will review it on an annual basis. Any material changes to this policy must be formally signed off by the Management Committee ("ManCo") before these changes are communicated to staff.
Challenge	The Audit and Risk Committee ("ARCo") will review and challenge this policy at least annually or more frequently as necessary. A recommendation for approval or otherwise must be made to the ManCo following each review. Reviews outside the annual cycle could be prompted by changes made to the President's delegation of authority ("DOA") from HO; or changing regulatory requirements.
Approval	ARCo reviews, challenges and approves the policy based on the recommendation of RMD and CRO. ManCo will have oversight of ARCo policies and if satisfied, will ratify the approved policy.
Applicability	All members of staff, whether permanent (local hires and/or expatriate) or contractors must operate in accordance with this policy. Escalation of any matters arising in respect of this should be via the individual's Head of Department or directly to the CRO. To ensure compliance with the requirements of this policy the Risk Department and well as Internal Audit will conduct periodic reviews to ascertain compliance with the provisions of this policy.

4 Risk Management Framework

CNCBLB considers the cornerstone of credit risk management to be a robust overarching risk management framework (“RMF”), supported by clear policies and procedures.

This ensures compliance with both general regulatory requirements, HO risk policies and with the Risk Appetite set by the ManCo. Credit Risk management forms and integral part of the overall risk framework, which is presented as follows:

CNCB (HEAD OFFICE)

HEAD OFFICE DELEGATED AUTHORITY
PRESIDENT CNCB LB

RISK APPETITE STATEMENT

GOVERNANCE & RISK MANAGEMENT FRAMEWORK

RISK	PRIMARY RISK MANAGEMENT FRAMEWORK
CREDIT RISK	Credit Approval and Credit Risk Policy
MARKET RISK	Market Risk Policy
OPERATIONAL RISK	Operational Risk Policy Outsourcing Policy Business Continuity Management Framework New Products Policy Conduct Risk Policy
LIQUIDITY RISK	Liquidity Risk Policy

5 Roles and Responsibilities

Three Lines of Defence

In order to manage the credit risk profile of the Branch, a three lines of defence model has been implemented.

5.1.1 First Line of Defence

First line of defence functions are those that manage and own risks within the Branch; this includes Business Development, Financial Markets and direct support functions (Operations, Finance, Human Resources and Information Technology departments).

It is the responsibility of the Heads of departments of first line functions to report risk related information to the CRO to ensure that the Branch's credit risk exposure is managed accordingly.

5.1.2 Second line of Defence

Second line of defence functions are responsible for overseeing the first line of defence and ensuring that their risk profile is managed accordingly; second line functions for the Branch are the Risk department and the Compliance department.

The Branch's Risk department is headed up by the CRO who will report to the President of the Branch. The Risk department is responsible for assisting business heads in the identification and management of their business risk profiles and for assisting them with the implementation of appropriate controls.

5.1.3 Third line of Defence

The third line of defence is responsible for providing assurance that the Branch's management of risk remains effective and proportionate; third line function, i.e. Internal Audit. On authorisation the Internal Audit department for the Branch will be outsourced to an external third-party provider.

Risk Governance

A number of the committees established to support the ManCo in its discharge of responsibilities delegated to it via the President's DOA. Their individual roles relative to the credit approval and credit risk management are set out below:

5.1.4 Credit Committee

The CCo is granted authority by the President under the terms of the HO DOA to review and approve credit applications within set credit limits for financial institutions and corporate obligors, see ***Appendix A*** – Credit delegations of Authority.

The day-to-day approval process will be overseen by the Risk department in conjunction with the CCo. The primary responsibilities of the CCo include, but are not limited to:

- Oversee the assessment of the Branch's lending and other credit risk generating activities;
- Approve or decline all credit application for loans/facilities within the limits delegated to the CCo by HO;
- Arrange for submission to HO CCo for approval of those credit application for loans/facilities outside the authority of the CCo;
- Execute the Branch credit policy in respect of credit sanctioning;
- Make recommendations to the ARCo and the Branch President on credit policy and strategy where appropriate;
- Review credit documentation standards;
- Review and propose updates to credit limits on an individual, group, sector and country basis;
- Review and escalate, where appropriate, breaches of credit limits and escalate to ManCo accordingly; and
- Recommend Loan Loss Provisions to the ManCo.

5.1.5 Audit and Risk Committee

The ARCo will receive its mandate from the Branch's ManCo.

The ARCo's primary role in relation to credit risk management is to ensure effective oversight and implementation of the Credit Risk Policy.

The key responsibilities for the ARCo in relation to Credit Risk include, but are not limited to:

- Evaluate the Branch's risk profile on a periodic basis;
- Ensure that the credit risk management is fully documented;
- Review and approve changes to the annual internal control assessment;
- Review credit risk reports on a periodic basis;
- Review, challenge and approve the credit policy and strategy;
- Develop an action plan resulting from credit events and provide recommendations to ManCo; and
- Review breaches of credit limits and escalate to ManCo accordingly.

6 Credit Strategy

Lending Activities (Target Market & Products)

The Branch will undertake a wide range of lending activities and in a number of different currencies – see ***Appendix B*** – Risk Appetite. The main sources of credit risk will be through lending products and Trade Finance activities although not exclusively. The initial phase of CNCBLB customer services will have the following customer and product matrix:

Products		Customers				
Category	Product and services	***CITIC Group entities***	***Domestic HO Financial Institutions***	***Domestic HO Large Multinationals***	***Local HO customers***	***Local EMEA / Other Customers***
Treasury	Foreign Exchange Spot	√	√	√	√	√
	Foreign Exchange Forwards/Swaps	√	√	√	√	√
	Interest rate / Cross-Currency Swaps	√	√	√	√	√
	Interbank lending / borrowing		√			√
	CD’s		√			√
	Repo’s		√			√
	Corporate Bonds		√	√	√	√
	High Quality Liquid Assets		√			√
Corporate Loans	Bilateral Loans	√		√	√	√
	Syndicated Loans	√		√	√	√
Trade Finance	Financial Institutions (Refinance, Letters of Credit and guarantees)		√			√
	Corporates (Bill advancing, Letters of Credit, guarantees, forfaiting and receivable finance)	√		√	√	√
Deposit	Corporate Current accounts	√		√	√	√

Products	Corporate Deposit Accounts	√		√	√	√
Payment Services	UK Domestic payments	√		√	√	√
	International payments	√		√	√	√

Credit Risk definition

The Branch defines credit risk as the risk of loss due to one or more counterparties /borrowers /issuers defaulting on, or otherwise being unable to fulfil, their contractual obligations.
Credit exposure will be generated by the following products:

Business Activity	Products	Country Risk	Obligor Risk	CP Risk	Issuer Risk	Pre-Settlement	Settlement Risk
Treasury	• Money Market instruments	√		√			√
	• Repurchase Agreements	√		√		√	√
	• FX spot	√		√			√
	• FX Forwards / Swaps	√		√		√	√
	• Interest Rate Swaps	√		√		√	√
	• HQLA Bonds	√			√		
	• Corporate/FI Bonds	√			√		
Banking	• Payment Services	√	√				√
	• Bilateral loans	√	√				
	• Syndicated Loans	√	√				
	• Project Finance	√	√				
	• Asset backed structured finance	√	√				
	• Bill and Telegraph Transfer financing	√	√				
	• Letters of Credit	√	√				
	• Letters of Guarantees	√	√				
	• Forfeiting/Receivable financing	√	√				

Definitions

CNCB LB defines credit risk management in 5 categories

1. **Country Risk** - risk that a foreign government will default on its financial commitments or restrict business/trade flows or the degree to which political and/or economic unrest impacts doing business in a particular country;
2. **Obligor Ris**k - also known as a debtor, potential default by entity who is legally or contractually obliged to make all principal repayments and interest payments on outstanding debt;
3. **Counterparty Risk** - the risk to each party of a contract that the counterparty will not meet its contractual obligations;
4. **Issuer Risk –** the legal entity that issues a financial instrument, any investor in the financial instrument incurs not only the market *risk* associated with any type of investment, but also an *issuer*-related default *risk*.
5. **Pre-settlement risk –** the risk that a counterparty defaults prior to maturity of a transaction which results in a market-to-market (plus credit add-on) exposure or replacement cost; and
6. **Settlement Risk –** unless settled 'Delivery verse Payment' ("DVP") through an approved clearing house/exchange; settlement risk is the risk that a counterparty or intermediary agent fails to deliver cash or a security as per the agreement.

Limits are set by CCo on total exposure to individual counterparties/borrowers/issuers and on aggregated exposure to groups, countries and industry sectors. Corporate counterparty credit ratings are obtained both from external sources and from the internal HO rating model. Both ratings, where available, are utilised for reporting, but the HO rating is used where a rating is required to determine policy. Where more than one external rating is available, the policy is to use either the lower rating if two ratings are available, or the lower of the two highest ratings if more than two are available.

Concentration Risk

Credit risk concentrations can arise with regard to material individual exposures to a single counterparty or group of connected counterparties, to exposures to counter-parties located within a particular geopolitical region, or exposures to counter-parties from a particular industrial sector.

Any such concentrations could leave the Branch vulnerable to a stress that impacted the particular concentration. Therefore, the Branch has set tolerance levels in relation to credit concentration risk, See ***Appendix B*** **–** Risk Appetite

Large Exposure Limits overview

As a Branch, CNCBLB is exempt from UK larger exposure rules as specified in CRR Article 400. However, the Branch has taken a prudent approach to ensure that its credit risk is diversified and implement maximum exposures in terms of single obligor and risk weighted assets, see ***Appendix B*** **–** Risk Appetite.

Credit Risk Mitigation

The following mitigants will be employed by the Branch to help manage its exposure to credit risk:

- Avoiding concentrations of risk by limiting exposures to individual counterparties/borrowers and groups, and diversifying exposure across different counterparties, thereby reducing the impact of a single counterparty default;
- Ensuring robust initial and ongoing credit analysis of counterparties, groups and countries;
- Settlement of transactions through approved payment systems or on a delivery-versus-payment basis;
- Limiting exposures to individual countries and industry sectors, and diversifying exposure across different countries and sectors to the extent that it is possible within the constraints of the overall business model of the Branch;
- Setting limits on tenures of transactions with counterparties;
- Utilising netting and collateral agreements where possible;
- Ensuring robust documentation of transactions, including setting appropriate covenants, where possible; and
- Where possible, obtaining HO or third-party guarantees to reduce the risk of loss.

CNCBLB credit risk mitigation includes that analysis of collateral in any credit application with prescribe haircuts/loan to value approved in the RAS to mitigate the risk of default, but collateral will not substitute a comprehensive credit assessment.

The only exception to this rule is when the CRO provides specific approval, the customer is well-known to the Bank and offers full-cash collateral to cover the transaction, see ***Appendix B*** **–** Risk Appetite

Collateral management operations

The responsibility of the Collateral Management includes:

- Custody: clearing and settlement the collateral for bilateral loans;
- Valuations: to evaluate eligible assets held and/or posted as collateral. Valuations must be done at least annually and completed by an external expert.
- Managing collateral movements: to record details of the collateralised relationship in the collateral management system, to monitor customer exposure and collateral received or posted with the agreed valuation, to check collateral to be received for the eligibility, to reuse collateral in accordance with policy guidelines, to deal with disagreements and disputes over exposure calculations and collateral valuations;

CNCBLB managed collateral in the HO Collateral Management System, the process requires:

- BD to collect and input the collateral information into the system, this must be as per the credit approval and Legal documentation;
- RMD review the internal valuation and two risk staff need to verify the collateral certificate, internal valuation as defined by an external valuation report and the internal haircut/Loan to Value;
- BD can only submit the contract for drawdown with a certified collateral valuation report;
- Operations record the loan contract reflecting the collateral;
- BD and RMD monitor the collateral value movement in the 'Post loan management' stage by annual review or real time updates in Collateral System;
- All valuations of collateral for NPE transactions must be escalate to CRO for approval. The CRO can escalate to the CCo, if required.

7 Country Risk

The Branch must ensure that the total amount of its exposures to a counterparty, specific industries, geographies or types of customers does not exceed trading and non-trading country risk limits as set by the HO in accordance with the RAS. All country risk limits will be allocated to CNCBLB by HO, in accordance with the approved global exposure to specific countries.

The RAS is set in accordance with the DOA provided by HO.

Definition of Country Exposure

Country risk exposure is the risk of any exposures to individual counterparties / borrowers / issuers to the same country where a foreign government may default on financial commitments and any changes to currency transferability /convertibility, business or political environment could negatively impact the value of the underlying asset. Country risk exposure typically arise from the following banking activities:

- Lending;
- Guarantees;
- Letters of credit;
- Money market transactions with local banks;
- Foreign exchange exposures;
- Issuer risk, investment in securities including governments. (whether held in trading or investment account);
- Local currency exposures (whether funded with local deposits or foreign currency); and
- Trade finance,
- Any other credit exposure from approved products (e.g.: derivatives)

For the purposes of the calculation of country risk exposure, the actual country of risk will be applied rather than the country of incorporation. Country of risk is usually where revenues are sourced, where the greatest cross-border risk exists, and the country from which repayment is expected and/or, if relevant, where the underlying goods are located.

The ManCo is the final authority within the Branch to determine the country of risk for a particular counterparty in case of any dispute.

Country Limits

The Branch establishes country limits in order to monitor and manage its lending concentration to specific countries. Country limits sit above counterparty and sector limits and the resultant country exposures are an aggregate of the utilisation of all exposures within a specific country.

A counterparty, obligor, issuer or sector limit may only be approved provided a country limit has been approved.

The Branch adheres to a comprehensive definition of "Country Risk", going beyond a narrow definition of "transfer risk". The latter is a measure of the foreign government's ability and willingness to meet its external debt obligations from foreign currency reserves, cash flow, credit lines, saleable assets and its access to new foreign currency funding. While recognising the importance of "pure sovereign risk" i.e. directly and indirectly assumed Government debt, "Country risk" in the Branch, refers to the entire spectrum of cross-border risk; covering governments, corporations, banks and other financial institutions, both in local and foreign currency. These risks go beyond the narrow definition of transfer risk but cover the subject country's specific political, social and economic factors that can affect its ability to repay debt.

Consequently, the Branch's Country limit will generally track the country ceiling assigned by the rating agencies, as opposed to the specific sovereign rating. Such a country ceiling is independent of the credit worthiness of either the government or the counter-party itself. In general, this ceiling is higher than a government's own foreign currency ceiling where one can discount the possibility of the risk of government interference with an individual counter-party's foreign debt payment obligations.

Country limits will, therefore, represent subjective policy limits derived on the bases of HO's and the Branch's assessment of the political, economic and financial risks of the countries concerned and the potential for doing business with them.

Generally, the Branch's CCo will only approve limits for the countries fulfilling the following criteria:

- Country (region)'s foreign currency country ceiling being at least BB (HO Internal Rating);
- The country (region) has had no significant default and other risky events within last 2 years;
- The country (region) has had no significant downgrading within last 2 years; and
- The country (region) has had no serious trade disputes with China within last 2 years.

See ***Appendix B*** – Risk Appetite

8 Industry/Sector Risk

Industry risk is the risk that general or specific risk factors to an industry or sector may negatively impact the value of the underlying asset. Risk Department will implement the risk factors provided by HO to determine the industry risk, this will impact the risk assessment of the credit.

The industry risk assessment could impact the RAROC calculation, if the industry is outside the HO's target industries or is detrimental to the environment with negative impact on climate change goals.

Industry sector limits will be proposed by the business departments to the risk department through the credit approval process.

The CCo will review and approve transactions within its DOA and industry/sector risk which will be monitored monthly by Risk Department and reported to the ManCo.

See **Appendix B** – Risk Appetite

9 Credit Approval Process

This section outlines the Credit Principles implemented by the Branch. These principles serve as guidelines for prudent lending and should ensure a strong credit process.

Credit Principles

- Prior to entering into any new credit relationship, the Branch must become familiar with the customer/counterparty and be confident that we are dealing with a customer/counterparty of sound repute and creditworthiness. The Branch has strict policies in place to avoid association with corporate entities and individuals that may be involved in fraudulent activities and other crimes.
- No credit will be extended or approved that could knowingly breach any UK or where relevant, any other regulatory authority requirements;
- No credit will be extended or approved that breaches the delegation of authority that the Branch operates under, without prior approval from HO;
- Drawdowns will only be made once the CCo has approved the credit proposal, Customer Due Diligence is complete and all documentation is completed satisfactorily;

- CCo approvals are specific to the Credit Application, any deviation or changes required must be represented for approval (including secondary market purchases of syndicated deals)
- On the best acknowledge, the Branch will not lend to names that have an outstanding credit default history in the UK or elsewhere.
- The Branch will not finance any speculative or undesirable activity, including but not limited to gambling, stock market/derivatives day trading and any activity which is deemed to be illegal in the UK or in China. If in doubt as to whether or not the Branch is able to participate in a specific lending activity, reference should be made to the CRO before any further action is taken;
- Any newly launched products must be approved and signed off by relevant departments including but not limited to the product sponsor/owner (Business Development/Financial Markets), Risk, Operation, Finance and Compliance Departments.
- Credit approvals are specific to the borrower and the type of credit facility; these are not transferable unless specifically approved by the CCo; and
- The Branch must have a direct contractual claim against the customer concerned at all times.

Credit application documentation

The credit proposals must be in the format and content as required by the CCo and it is imperative that all major risks are clearly noted and that static data is accurate. Risk department provide the minimum requirements for credit requests in the following templates:

- ***Appendix C*** - Credit requests - Corporate
- ***Appendix D*** – Credit request - Financial Institution

Legal documentation

The Branch's legal documentation should always be used for all bi-lateral credit facilities, except where the complexity of a transaction dictates otherwise, in which case the legal documentation will be drafted by external legal counsel to an acceptable standard which conforms to the Branch's standard form documentation.

Loan Market Association ("LMA") standard documentation or any other standard documentation as agreed upon by the Syndicate would be applicable in case of syndicated loans.

All legal documents must contain clauses that requires the borrower to protect the Branch and ensure coverage of DAC 6 requirements, this would include:

- Disclosure permission that would avoid triggering confidentiality/ secrecy (Hallmark A1)
- Representation that confirms that hallmarks are not triggered by the borrowers transactions
- Undertaking to share advice or reports if made by the borrower that could impact the transaction

All waivers, changes to information/financial covenants or alterations must be approved by the CRO and if required, the CRO can refer changes to the CCo for consideration and approval. Business Development must formally record the details of the request and complete the 'Amendment/Waiver/Consent/Extension' memo, see Appendix H for the template.

All granting of facilities and extensions of credit need to be made on an arm's-length basis and must, at a minimum, comply with the following guidelines:

- Terms of the loan must be in-line with the current market;
- Pricing must be in line with current market;
- Legal documentation must clearly lay-out the contractual obligations and responsibilities; and
- All inter/intra Group lending, must comply with the above and will require approval/reporting of related party transactions.

If there is any doubt or concerns that this action may impact the credit quality or approval, the CRO will escalate to the CCo.

External Credit Rating

External Credit Rating of the following agencies shall be considered for the credit appraisal:

- Moody's;
- Standard & Poor; and
- FITCH.

If the proposed client is also externally rated, the rating of the proposed client shall be considered by Risk department and the CCo, but the internal credit risk rating (using HO methodology) will be used to calculate the facility amount as per the DOA, Risk Weighted Assets, Return on Risk Adjusted Capital and Expected Credit Losses.

Internal Credit Rating

- Corporate customers should be internally rated using the HO approved internal rating model and methodology, see ***Appendix E*** credit rating methodology
  The credit rating methodology covers the following:
  - Chinese Corporate ratings - existing China CITIC HO internal rating;
  - International Corporate rating s-China CITIC HO internal rating model developed for international business, using both qualitative and quantitative criteria;
  - Real Estate scoring-card model using HO developed 'Qualitative Criteria'.

- Financial Institutions: No internal rating model is currently available for Financial Institutions and Sovereign credit counterparties/issuers. Approved external rating agencies will be used to determine credit quality and mapped to HO Internal ratings to determine acceptable credit limits under the DOA, Risk Weighted Assets, Return on Risk Adjusted Capital and Expected Credit Losses.

New Credit Facility Approval Process

All new credit requests must be initiated by the risk owners, this would normally be Business Development or Financial Markets. The credit approval process is covered in the following:

- ***Appendix E*** - Corporate Lending credit approval process
- ***Appendix F*** **–** Sovereign and Corporate Bond issuers
- ***Appendix G*** - Financial Institution credit approval process

Risk Department will log all credit applications which will be presented at the Credit Committee for discussion and challenge.

Credit classification

All credit obligors, counterparties and issuers will be classified as per the following in **Appendix H –**

Credit Classifications.

In summary, the credit classification will be as follows:

Credit classifications	IFRS 9 CLASSIFICATIONS
NORMAL	1
NORMAL (-)	1
SPECIAL MENTION	2
SPECIAL MENTION (-)	2
SUB-STANDARD (+)	3
SUB-STANDARD	3
DOUBTFUL	3
LOSS	3

Risk assets classified as 'Normal & Normal (-)' will be managed by Business Development Department ("BD"). If any risk assets is downgraded by the CCo, BD will immediately (within 5 days) formally hand the asset over to RMD post-loan management department.

This process would require BD to complete a memorandum to RMD covering the following:

- Customer details
- Loan / transaction details
- Issues and/or cause for the downgrading of the asset
- Key actions taken and timelines

RMD will take-over the management of the account and report to the CCo as agreed.

If the risk asset is deemed by the CCo to be rehabilitated and that it can be restored to 'Normal' the RMD will prepare a similar report back to BD covering the reasons and actions required for this risk asset. RMD and BD will have a hand-over period of 30 days to ensure there is a full understanding of the requirements of this upgrade.

If the assets is irrecoverable or and part of the risk asset is considered irrecoverable, RMD and the CRO will present the case to the CCo for consideration. If agreed, a formal request will need to be drafted by the CRO to the President to authorise the write-off.

See Appendix H for the detailed breakdown for Credit Classifications.

Non-Performing Loans (“NPL”)

All credit risk classifications below stage 1 (IFRS9) or ‘Normal’ will be classified as non-performing exposure and managed by RMD. Impairments and provisions will be raised using the IFRS 9 calculations in the HO approved models.

<u>NPL management</u>

- All assets in Stage 2 or classified below ‘Normal or Normal (-)’ will be managed by the ‘Post-Loan Department’ in RMD
- RMD will use the standard 4 step NPL management methodology to manage NPL assets and present a plan to the CCo members for approval:

1. Identify strategy for NPL assets (dependent on type of loan - restructure/exit/write-off ➔ unsecured/ secured –legal action/collateral/sale), this will include the valuation or revaluation of any collateral/security;
2. Identify routes to recovery/exit (explore regulatory requirements, legal impediments, economic conditions for work-out, immediate sale, hybrid strategy, restructuring);
3. Develop operating model for NPL Asset and if an option, a work-out solution with detailed monitoring process for tracking and reporting; and
4. Ensure sufficient skilled staff available for feedback to measure, monitor and refine strategy/action plans, if required.

The CCo may allocate resources from any department, request HO support or appoint an external consultant to manage NPL’s and assist with the strategy agreed, this could include:

- Hold/forbearance strategy: A hold strategy option is strongly linked to operating model, forbearance and borrower assessment expertise, operational NPL management capabilities, outsourcing of servicing and write-off policies.
- Active portfolio reductions: These can be achieved either through sales and/or writing off provisioned NPL exposures that are deemed unrecoverable. This option is strongly linked to provision adequacy, collateral valuations, quality exposure data and NPL investor demand.
- Change of exposure type: This includes foreclosure, debt to equity swapping, debt to asset swapping, or collateral substitution.
- Legal options: This includes insolvency proceedings or out-of-court solutions.

The Branch will ensure that the NPL strategy includes not just a single strategic option but rather combinations of strategies/options to best achieve their objectives over the short, medium and long term and explore which options are advantageous for different portfolios or segments and under different conditions.

Forbearance

The Branch may use a key risk management tool available to banks to resolve or limit the impact of NPLs, this is forbearance, and this includes waivers of covenants, reducing or pausing payments, reducing interest rates or full moratorium.

If agreed, RMD will monitor forbearance activity in two ways: efficiency and effectiveness.

- Efficiency relates mainly to the volume of credit facilities offered forbearance and the time needed to negotiate with the borrower; and
- Effectiveness relates to the degree of success of the forbearance option (i.e. whether the revised/modified contractual obligations of the borrower are met).

In addition, proper monitoring of the quality of the forbearance is needed to ensure that the ultimate outcome of the forbearance measures is the repayment of the amount due and not a delaying of the assessment that the exposure is uncollectable. In this regard, the type of solutions agreed should be monitored and long-term (sustainable structural) solutions should be separated from short-term (temporary) solutions.

See Section 10 for details on Credit impairment/Expected Credit Loss methodology

Credit Monitoring and Review Process

Credit Administration

RMD have in place a ‘Post-Loan Management’ system that monitors and manages the ongoing administration of the credit-risk bearing portfolios. The credit administration includes the management all post loan administration including, but not limited to updating credit information, reviewing current financial information, financial covenant compliance certificates, sending out renewal notices and preparing any documents (eg: waivers) after the loan agreements are signed and drawdown has occurred.

The Post-loan credit management department is independent from the credit grant department and reports directly to the CRO and is responsible for maintaining the portfolio credit administration, measurement and monitoring of all the credit risk-bearing assets.

The credit administration system includes:

- Monitoring and ensuring compliance with all Credit policies, processes and procedures;
- Monitoring the condition of individual credits, including compliance with legal documentation and determining the adequacy of provisions and reserves;
- Developing and utilising an internal risk rating system in managing credit risk. The rating system is provided by HO and is consistent with the nature, size and complexity of a bank's activities;
- Information systems and analytical techniques are in place that enables management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk; and
- Monitoring of applicable laws and regulations to ensure Credit policies are up to date.

Credit Exposure Monitoring

Credit exposures are monitored daily against approved limits and reported, at least weekly, to the Credit Committee members, Business Development and Financial Market departments.

Any credit limit breaches will be treated as a serious event and must be reported to the CRO. In the case of a breach, risk department will work with the risk owner to determine the reason for breach, rectification and approval authority.

Reporting of Breaches

A breach is where activities are undertaken in a manner which is not compliant with the requirements set out in this policy and underlying documentation, such as generating an exposure that is higher than the approved limits. If an individual becomes aware of a breach, they must notify the Risk department immediately.

At the point of an audit being conducted in respect of any department, it is the responsibility of Internal Audit to inform the Risk department of any breaches identified in compliance with the terms of the Credit Risk Policy. Furthermore, any breaches in respect of subject matter covered within this policy documents identified as part of the Branch's Compliance Monitoring Programme will be escalated to the ARCo. Credit Portfolio reviews will be submitted by the RMD to the CCo and ManCo monthly.

Early warning Signals

Using the methodology developed by HO, even though some aspects may not be applicable, both BD and RMD will manage and monitor the loan book using the following tools:

Depending on the severity of risk warning signals and the impact on the safety of bank assets, the alerts are divided into three levels:

- Red alert refers to customers who are likely to cause losses to our credit assets. In principle, customers with serious warning signs should be identified as red warning level.
- Orange alert refers to a customer whose credit assets may not be recovered normally. In principle, customers with general warning signals should be identified as orange warning level.
- Yellow alert refers to customers with certain risks and hidden dangers that need to be paid close attention to. In principle, customers with warning signals should be identified as yellow warning level.

See Appendix J for a detailed breakdown of Early Warning indicators. In summary the following applies:

For the red alert customers, the credit facility will be frozen and other measures could include: freezing the deposit account opened by the borrower in the bank (if applicable), deduction and repayment, initiating application for asset risk classification adjustment, announcing the maturity of the loan in advance, asset preservation intervention, organizing the withdrawal, etc.

For the orange alert customers, if possible conduct on-site investigation and increase the frequency of post-loan inspections/reviews. Other recommended measures include increasing collateral or guarantee against pledges, adjusting the pricing and submitting application for asset risk classification adjustment.

For yellow alert customers, the proposed disposal measures include investigating and analysing the causes and degree of the warning signal, strengthening the monitoring frequency, monitoring capital inflow and outflow, increasing agreed withdrawal conditions, etc.

The credit exposure as the matrix below.

	EAD(risk exposures）		
	Large(EAD⩾ RMB500mn)	Medium(RMB300mn⩽EAD < RMB500mn)	Small（EAD< RMB300mn）
Red	HO level	HO level	Branch level
Orange	HO level	HO level	Branch level
Yellow	Branch level	Branch level	Branch level

According to the authorization, the early warnings are divided into HO level early warning and Branch level early warning. HO level early warning refers to the risk that needs to be reported to HO; the Branch level warning refers to the risk warning which need not report to the HO and can be disposed by the branch itself.

Credit Limit Review

Limits for facilities need to be reviewed annually and must be submitted one month before their maturity date or as otherwise directed in the terms of the original credit approval. Risk department will re-access the internal credit rating with updated financial information. As a result of the review, the CCo may suggest action plans with regards to the original facility that could include continuation, close monitoring or an exit plan.

The Risk department may initiate ad hoc reviews prior to the next review date if there are significant changes in market conditions or a corporate event.

Review Frequency

Written reviews of approved credit facilities are required as follows, except as otherwise approved by CCo:

Exposure Type	Type of review	Review frequency	Proposer
Revolving Credit Facilities	Full Review	Annually or at point of any credit event or rating change.	Relationship Manager (“RM”)
Bilateral and syndicated loans	Full Review	Annually or at point of any credit event or rating change.	RM
	Updates or Rating Reviews	At point of any credit event or rating change, and upon BD and/or Risk decision.	RM
	Portfolio Review	Monthly basis	Risk Department

Interim Reviews

For some credit facilities, interim reviews that fall outside of the annual review cycle may need to be conducted. Interim reviews can be triggered in the following circumstances:

- If required as per initial approval by CCo due to higher risks perceived;
- If the previously approved facilities have been restructured; and
- If the account is specifically classified or is further downgraded in asset classification.

The Interim Reviews will be carried out by both Business Development and Risk Management, and must be signed off by the CCo.

Overdue Reviews

A master record of all annual reviews is to be maintained by the Risk department.

A list of “expected reviews” will be circulated monthly by the Risk department to RMs. The RM’s should maintain a diary note for each customer annual review and provide ample time to collect the required information and to prepare the review, risk department to assess and CCo to consider.

Reviews must be completed by the annual review date and can be deferred by the CRO for a maximum of 3 months, if an acceptable reason is given (eg: delayed financial statements, refinancing, new request in pipeline, etc). Business Development must formally record and request the approval for the extension and this must include, at least the following:

- Nature of request (provide full details)
- Recommendation
- Expected new review date

If longer than 3 months overdue, this will need to be reported to the CCo for consideration / approval.

The Risk department will monitor the review process, bringing “overdue” reviews to the attention of the CCo, ManCO and ARCo.

10 Credit Impairment/Expected Credit Loss

Asset Classification

All loans and advances will be classified as either:

- Stage 1 – No sign of credit deterioration (IFRS 9.5.5);
- Stage 2 – Credit quality deterioration can be observed (IFRS 9.5.5.3); or
- Stage 3 – Clear sign of impairment or credit event (Appendix A of IFRS 9)

The IFRS 9 stages are defined in detail below. However, it must be noted that HO have implemented IFRS9 and CNCBLB will provide data in order for HO to provide the Branch with 'Expected Credit Loss' ("ECL") calculations see ***Appendix H*** for HO IFRS 9 calculation methodology.

CNCBLB impairment testing must be performed prior to each reporting date, or when there is an indication of the deterioration in the underlying credit or an event has occurred that may lead to a potential default. The test and calculation must indicate the amount recoverable is lower than the credit sum due (including interest and fees).

The Bank must ensure its assessment of impairments are IFRS9 compliant and should take into account changes in credit conditions, such as:

- There has been a deterioration in the credit performance or indications that there is likely to be a reduction in the credit quality;
- The borrower has substantial financial difficulties;
- Breaches of contract, e.g. delayed payment or non-payment;
- The borrower has been granted a concession (forborne exposure) due to financial difficulties; and
- It is probable that the borrower will go into financial reconstruction.

Stage 1 Exposures

Assets classified as stage 1 exposures for IFRS9 purposes are those 'in-order' assets performing as expected at the point of origination/acquisition, i.e. showing no significant increase in credit risk. This includes new originations or purchased assets (from the point of initial recognition), but excludes exposures deemed credit impaired at point of origination.

The Branch recognise an impairment allowance equal to 12 month expected credit losses.
Standards must define controls to ensure that:

- Businesses document the detailed calculation of impairment allowances, consistent with an assessment of 12 month Expected Credit Loss (“ECL”) calculated as Probability of default (“PD”) x Exposure at Default (“EAD”) x Loss Given Default (“LGD”) over 12 months, discounted at the Effective Interest Rate (“EIR”) to reflect the present value as at the reporting date;
- The calculation is undertaken at an appropriate level of granularity/segmentation, i.e. relative to the materiality and significance of the portfolio;
- Impairment measurement parameters, incorporate a probability weighted view of future macro-economic conditions;
- Businesses document the initial calculation of 12-month ECL at first point of recognition.
- Post write-off recoveries and future debt sales are incorporated into impairment measures, and that the level of debt sale income considers both the existing and foreseeable debt sale environment; and
- Anticipated external collections costs, (i.e. commission payments) are included in the assessment of impairment allowances, either within the model or via a separate overlay within the ECL calculation.

Interest and fee income on stage 1 assets must be recognised on the gross carrying amount in line with IFRS principles, i.e. without adjustment for expected credit losses.

Stage 2 Exposures

RMD will manage and monitor all stage 2 assets and report, at least, monthly to the CCo and ManCo. Assets classified as stage 2 exposures for IFRS9 purposes are those where credit risk has significant increased compared with expectations at the point of origination/acquisition, but which are not yet considered ‘Credit Impaired’.

The Branch must raise an impairment allowance equivalent to the latest assessment of lifetime expected credit losses. Interest and fee income on stage 2 assets is recognised on the gross carrying amount as per stage 1 above, i.e. without adjustment for expected credit losses.

Lifetime assessment period

The assessment of lifetime ECLs for stage 2 and stage 3 assets must consider the maximum contractual period over which the Branch is exposed to credit risk, including the impact of permitted extensions and pre-payments, i.e. those available at the option of the borrower.

For loan commitments, the lifetime assessment period would normally be the maximum contractual life, i.e. the period over which the Branch has a contractual obligation to provide credit. However, use of behavioural life may be justified through historical evidence of customer pre-payments /extensions.

For revolving credit facilities (e.g. on some bilateral loans), the lifetime assessment period will typically extend beyond the contractual life so that it includes the full period over which the Branch is expected to be exposed to credit risk, based on historical experience, i.e. the time typically taken to repay an unsecured loan of an equivalent amount.

Stage 3 Exposures

RMD will manage and monitor all stage 3 assets and report, at least, monthly to the CCo and ManCo. Assets classified as stage 3 exposures for IFRS9 purposes are those where credit risk has increased to a point where they are now considered 'Credit Impaired'.

The Branch must raise an impairment allowance equivalent to the latest assessment of lifetime expected credit losses, i.e. on the same basis as for stage 2 assets above. Standards must define stage 3 ECL calculation requirements equivalent to those detailed under stage 2, with the exception that, for stage 3 exposures impairment measurement parameters must be defined as such that they take into account that stage 3 exposures are already considered as in default, and any exposure is considered as the current outstanding balance.

Monitoring of Stage 3 Exposures

RMD will manage and monitor all stage 3 assets and report, at least, monthly to the CCo and ManCo. The purpose of regular monitoring of 'credit impaired' accounts is to:

- Assess where appropriate whether the account can be upgraded by applying 'forbearance' measures such as rescheduling of payments/ restructuring/ rehabilitation;
- Prevent the assets from becoming obsolete or loss assets;
- Explore the possibility for an acceptable compromise settlement;
- Ascertain current status of recovery proceedings; and
- Identity the future course of action in the account.

11 Record Keeping

Appropriate record keeping is a key component of ensuring compliance with responsible lending regulations. The Branch retains appropriate evidence of the sign-off process in respect of all lending decisions to demonstrate that the appropriate controls have been applied.

12 Training

All staff involved in the lending process will be provided with initial and ongoing training on the lending decision criteria and assessment methodology.

Prior to being granted permission to undertake lending decisions, new employees and team members must undertake a period of structured shadowing and induction training before they are permitted to take lending decisions.

13 Appendix A - Credit Risk Delegated Authority

As per HO delegated authority dated January 2020

External rating			Internal	Customer Credit Approval Authority to individual counterparties.	
Moody's	**S&P**	**Fitch**	**HO Rating**	**Financial Institutions**	**Corporate**
Aaa	AAA	AAA	AAA+	$150mn	$100mn
Aa1	AA+	AA+	AAA	$120mn	$80mn
Aa2	AA	AA	AA+	$120mn	$80mn
Aa3	AA-	AA-	AA	$120mn	$80mn
A1	A+	A+	A+	$100mn	$60mn
A2	A	A	A	$100mn	$60mn
A3	A-	A-	BBB+	$100mn	$60mn
Baa1	BBB+	BBB+	BBB	$80mm	$50mn
Baa2	BBB	BBB	BB+	$80mn	$50mn
Baa3	BBB-	BBB-	BB	$80mn	$50mn

14 Appendix B – Risk Appetite

The Branch has set its Risk Appetite in respect of credit risk as follows:

- No obligor/counterparty/issuer should exceed 25% of the total credit exposure based on the Total Risk Weighted Assets *
- Provision coverage ratio of NPL ≥ 150%;
- Non-Performing Loan ratio ≤ 2%;
- Loan Book Portfolio - Average 12 months Default Probability of Corporate Business ≤ 1%; and
- Treasury Portfolio - Average 12 months Default Probability of Financial Institutions Business ≤ 1%

* **Exception to Concentration limi**t: Low risk transactions can be up to 50% of TRWA, these transaction will be classified as low risk if the risk is transferred to HO/ Domestic branch eg: Stand-by Letter of Credit or demand guarantee.

Credit Risk Maturity Profile

Business Activity	Products	Maximum Tenor
Treasury	• Money Market instruments • Repurchase Agreements • FX Forwards / Swaps • Interest Rate Swaps • Liquid Bonds (Gilts/Treasuries or Equivalent) • Corporate Bonds	1 year 1 year 5 years 5 years 10 years 5 years
Banking	• Bilateral loans • Syndicated Loans • Project Finance • Asset backed structured finance • Bill and Telegraph Transfer financing • Letters of Credit • Letters of Guarantees • Forfeiting/Receivable financing	5 years 5 years 5 years 5 years 2 years 2 years 2 years 1 year

Credit Risk mitigation (acceptable collateral)

Collateral Type	% Haircut/Loan to Value	
	Financial Institutions	Corporate
Cash	100%	100%
Bonds	Custodian/Clearing haircuts – credit quality, maturity/currency	Depending on assessed credit quality & liquidity
Equities	N/A	50%
Credit Derivatives/Other direct credit substitution	100%	100%
Bank guarantees/Letters of Credit	Depending on assessed credit quality	Depending on assessed credit quality
Asset Backed - Residential Real Estate - Commercial Real Estate - Industrial Real Estate - Other assets	 N/A N/A N/A To be determined by Risk	 70% 60% 50% To be determined by Risk

Credit Concentration Risk

Risk category	Risk type	Risk measurement	Risk appetite Maximum Exposure
Risk Profile	Total RWA	HO Internal Rating	HO 100% AAA to A 100% BBB 75% BB 50% Below BB 0%
Geography	Country risk exposure	Net exposure to Total Assets: China United Kingdom United States of America Europe (excluding UK) Total Other Countries (Maximum 20% per country)	 100% 100% 100% 80% 50%
Sector	Industry and sector exposure	Net exposure to Total Assets: Sovereign/Government Financial Services Real Estate Retail/Wholesale trade Business services Mining & Energy Manufacturing Construction/Infrastructure Total Other Industries	 100% 100% 50% 40% 25% 25% 30% 35% 20%

Credit Monitoring (for guidance only)					
Currencies	Approved currencies	Net exposure to Total Assets: USD RMB GBP EURO Total Other Currencies (Maximum 25%)	 100% 100% 50% 50% 50%		
Customer Type	Exposures to customer types	Net exposure to Total Assets: Sovereign/Government Financial Institutions Corporate	 50% 60% 75%		
Customer/Product matrix	Product Concentration Limits as a maximum % of Loan Book				
	Bilateral Loans	**Syndicated Loans**	**Trade Finance**	**Asset Backed**	**Project Finance**
Domestic HO	90%	90%	90%	90%	50%
CITIC Group Entities	60%	60%	60%	60%	60%
Local HO Customers	100%	100%	100%	75%	50%
Local EMEA /Other Country Customers	50%	50%	50%	50%	50%

15 Appendix C – Credit request format Corporate

Business Development Department ("BD") London Branch propose the limits to Risk Management Department ("RMD"), the request should specify:

- Business Group (Parent/Ultimate owner)
- Legal Entity
- Country of Risk
- Type of Request
- Request Deadline
- Purpose and rational of request
- Client Background
- Key Terms: Products, Currencies, Loan Amounts, Tenors, Interest Rate, Repayment Schedules, Covenants etc.
- Key Risks and Mitigants
- Recommends
- Support docs

RMD takes the following responsibilities:

- Credit analysis
- Internal Credit Rating mapping to HO Internal Credit Ratings
- Assess maximum credit limits under local delegated authority
- Assess currencies, products and tenors requested
- Presents to the Branch CCo

All above limits are reviewed on annual basis using the same credit approval procedure as a new request.

中信银行 CHINA CITIC BANK 伦敦分行 LONDON BRANCH

Credit Approval Memo Corporate

Completed by: Relationship Manager/ Business Development

	Credit Application
	Annual Review
	Urgent – reply by:
	ASAP- not later than:
	Normal Process

<table>
<tr><td colspan="5">Name:</td></tr>
<tr><td colspan="2">Account number:</td><td colspan="2">Relationship Manager:</td><td>Business Group (Parent/Ultimate owner):</td></tr>
<tr><td>Date:</td><td>Review date:</td><td colspan="3">Purpose:</td></tr>
<tr><td>Country: Domiciled</td><td>Country: Risk</td><td>Country code:</td><td>Industry:</td><td>KYC status/AML risk rating:</td></tr>
</table>

<table>
<tr><th colspan="5">FACILITIES /PRODUCTS</th></tr>
<tr><td>Status
(New, renew, increase, decrease)</td><td>Products

<u>Treasury</u>
Settlement limit (Payments, FX spot)
Debt securities

<u>Commercial</u>
Loans (Bilateral/Syndicate/Real estate)
L/C Issuance/negotiation / Confirmation
Acceptances under LC discounting
Receivable Financing</td><td>Tenor
(Months)

Spot
60

60
12
12
24</td><td>Outstanding
(USD 000’s)</td><td>Limit
(USD 000’s)</td></tr>
<tr><td colspan="5">Deal Structure/Collateral/Legal documentation:</td></tr>
<tr><td colspan="5">Recommendation:</td></tr>
</table>

<table>
<tr><th colspan="3">SIGN-OFF</th></tr>
<tr><td>Relationship Manager:</td><td>Relationship Manager:</td><td>Head of Business Development:</td></tr>
</table>

Completed by: Risk Management Department

CREDIT APPLICATION REMARKS/ASSESSMENT			
BACKGROUND SUMMARY:			
RISK PROFILE	☐ AAA to A ☐ BBB ☐ BB ☐ Below BB	USD current exposure	USD exposure With new deal
COUNTRY RISK	☐ China ☐ United Kingdom ☐ United States of America ☐ Europe	USD current exposure	USD exposure With new deal
INDUSTRY	☐ Sovereign/Government ☐ Financial Services ☐ Real Estate ☐ Retail/ Wholesale trade ☐ Business Services ☐ Mining & Energy ☐ Manufacturing ☐ Construction/ Infrastructure	USD current exposure	USD exposure With new deal

EXTERNAL CREDIT RATINGS	Rated by:	Moody's	S&P	FITCH
	Long-term rating			
	Outlook			
	Rating date			

INTERNAL CREDIT RATING	Country Rating:	Country outlook:	Obligor/Issuer rating:	Obligor/Issuer Outlook:
DAC 6 Checklist	Cross-border Borrower (UK/EU)	Syndicated (MLA in UK/EU)	Exempt borrower (Gov/FI/ exchange)	Hallmark breaches (Complex/Purpose)
RISK DATA	RAROC:	PD:	LGD:	ECL:
	FINREP Type:	FINREP Code:	HO Default Cat:	IFRS 9 Stage:
FINANCIAL HIGHLIGHTS	Minimum 3 years:			

CORPORATE ANALYSIS	See Attached credit assessment covering:	**Appendices**
RISK MITIGATION	Risk	Mitigation
GROUP RELATIONSHIP		
Recommendation		

SIGN-OFF	
Head of Credit Risk:	CRO:

CREDIT COMMITTEE			
Member	***Signature***	***Date***	***Comments***
CRO (Chair)			
President			
Vice-President			
CCO			
Head of Finance			

16 Appendix D – Credit Review format Corporate

Business Development Department ("BD") London Branch propose the credit annual review application to Risk Management Department ("RMD"), the request should specify:

- Business Relationship
- Potential Future Business
- Economic Benefit
- Deal Structure
- COVID-19 Impact
- AML/KYC (news/ alerts)
- Shareholders (news/ alerts)
- Management (news/ alerts)
- Company (news/ alerts)

RMD takes the following responsibilities:

- Transaction analysis
- Profitability analysis
- Legal documentation review
- Assess the financial covenants
- Compliance check
- External credit ratings
- Assess the country risk limit/ exposure
- Financial highlights
- Industry analysis
- Risk mitigation

All above credit applications are reviewed on annual basis using the same credit approval procedure as a new request. Internal credit reviews conducted by RMD independent from the business function provide an important assessment of how BD monitored the individual credits and the overall quality of the credit portfolio. RMD presents to the Branch CCo directly.

中信银行 CHINA CITIC BANK 伦敦分行 LONDON BRANCH

Credit Review Memo
Corporate

Completed by:
Relationship Manager/ Business Development

Name:					Credit Application
				X	Annual Review
					Urgent – reply by:
					ASAP- not later than:
				X	Normal Process
Customer number:		Relationship Manager:	Business Group (Parent/Ultimate owner):		
Date:	Review date:	Purpose:			
Country:	Country: Risk	Country code:	Industry:	KYC status/AML risk rating:	
FACILITIES /PRODUCTS					
Status	Products **Commercial**		Tenor (Months)	Outstanding (GBP)	Limit (GBP)

1. **Business Relationship:**

2. **Potential Future Business:**

3. **Economic Benefit:**

4. **Deal Structure:**

5. **COVID-19 Impact:**

NEWS / ALERTS
- AML/KYC –
- SHAREHOLDERS –
- MANAGEMENT –
- COMPANY –

Recommendation:

SIGN-OFF		
Relationship Manager:	Relationship Manager:	Head of Business Development:

Completed by: Risk Management Department

<table>
<tr><th colspan="5">CREDIT REMARKS/ASSESSMENT: data as at XX/XX/XXXX</th></tr>
<tr><td>TRANACTION ANALYSIS</td><td colspan="4"></td></tr>
<tr><td>PROFITABILITY</td><td colspan="2">The assessment covers 4 quarters ending XX/XX/XXXX
Total expousure
RWA –
ECL –
Total Income
Interest income –
Fee income
FTP 85bps cost –
Corporate cost 10bps –
Net Income –
Net Income after ECL –</td><td colspan="2">. Return on RWA is __%
. Total income of <u>£</u>______in year under review resulted in positive cash generation after costs and provisions
. Ratio analysis on Net Income below:
Return on Asset –
Net Return on Asset –
Return on RWA –
Gross Margin (Operating Income) –
Gross Margin (Total Revenue) –
Net Margin (Operating Income) –
Net Margin (Total Revenue) –</td></tr>
<tr><td>DOCUMENTATION</td><td colspan="2">Legal Agreements in place:
• Facility Agreement between obligor and XX dated xx/xx/xxxx
• Security Agreement dated xx/xx/xxxx
• Transfer Certificate dated xx/xx/xxxx
• Suspension agreement dated xx/xx/xxxx</td><td colspan="2">No additional comments

AGENT – XX Bank</td></tr>
<tr><td>Financial covenants</td><td colspan="4">Last compliance certificate received was XXX reflecting:</td></tr>
<tr><td>COMPLIANCE</td><td colspan="2">Upfront fees
Interest Payments
Events of Default
Financial Covenants
Other requirements</td><td></td><td></td></tr>
<tr><td rowspan="4">EXTERNAL CREDIT RATINGS</td><td>Rated by:</td><td>Moody’s</td><td>S&P</td><td>FITCH</td></tr>
<tr><td>Long-term rating</td><td></td><td></td><td></td></tr>
<tr><td>Outlook</td><td></td><td></td><td></td></tr>
<tr><td>Rating date</td><td></td><td></td><td></td></tr>
<tr><td>INTERNAL CREDIT RATINGS</td><td colspan="4"></td></tr>
<tr><td>COUNTRY</td><td colspan="4"></td></tr>
<tr><td>INDUSTRY</td><td colspan="4"></td></tr>
<tr><td>OBLIGOR RISK</td><td colspan="4"></td></tr>
<tr><td>RISK DATA</td><td>PD:</td><td>LGD:</td><td colspan="2">ECL: USD</td></tr>
<tr><td rowspan="2">FINANCIAL HIGHLIGHTS</td><td>(GBP millions):</td><td>2020</td><td colspan="2">2019</td></tr>
<tr><td colspan="4">Profitability
Liquidity
Leverage</td></tr>
<tr><td>Financial Statements</td><td>XX audited</td><td>2019</td><td colspan="2">2018</td></tr>
<tr><td>Early Warning Signals
Severe /Moderate
Other Risk factors</td><td colspan="4"></td></tr>
<tr><td>RISK MITIGATION</td><td colspan="4"><u>First Repayment Sources:</u>
<u>Second Repayment Sources:</u></td></tr>
<tr><th colspan="5">SIGN-OFF</th></tr>
<tr><td colspan="2">Credit Analyst</td><td colspan="3">Risk Manager</td></tr>
</table>

17 Appendix E – Credit request format Financial Institutions

Credit limits for Financial Institutions are controlled by HO FI department using 'Total Global limits'. If CNBLB requires limits for existing FI counterparties, allocations must be requested and if agreed, allocated to London Branch directly through the FMMS system.

If FMD London Branch propose the new FI limits, the request must be submitted to BD off-line (email or memo) the request should specify:

- Counterparty Name
- Country of Risk
- Legal entities to trade with including all Branches/Subsidiaries
- Products
- Currencies
- Tenors
- Purpose and rational of request

BD London Branch propose the requests to RMD London Branch (off-line), the request should:

- Propose the combined FI limits including FMD request and Nostro accounts
- Credit request memo

RMD takes the following responsibilities:

- Credit analysis and mapping ECAI's to HO internal credit rating
- Assess maximum credit limits under local delegated authority
- Assess currencies, products and tenors requested
- Present to the Branch CCo

The Branch CCo:

- Challenge limit requests (consider Credit Risk Appetite requirements)
- Approve limits for the Branch
- Agree limits to be sent to HO IBD

Head Office IBD:

- Consider Branch limits request
- If the limit approved by HO, IBD will provide the formal approval letter to the Branch
    - If FI trading limit (including FI bond) approved, HO FMD allocates the limits to Branch via FMMS system (HO reserves the right to monitor and re-allocate the limits, if not utilised).
    - If Nostro account limit approved, IBD allocate the limits to Branch offline.

RMD London Branch (Middle Office)

- Allocate the HO FMD limits to FMD London Branch in FMMS system (Products)
- Monitor limits and exposure on daily basis
- Report risk profile to Branch CCo/ManCo (Monthly)
- Report risk profile to HO (Quarterly)

All above limits are reviewed on annual basis, and same credit approval procedure as new request.

中信银行 CHINA CITIC BANK 伦敦分行 LONDON BRANCH

Credit Approval Memo Financial Institutions

Completed by: Relationship Manager/ Business Development

	Credit Application
	Annual Review
	Urgent – reply by:
	ASAP- not later than:
	Normal Process

Name:		
Account number:	Relationship Manager:	Business Group (Parent/Ultimate owner):

Date:	Review date:	Purpose:	
Country: Domiciled	Country: Risk	Industry code: Industry	KYC status/AML risk rating:

FACILITIES /PRODUCTS

Status (New, renew, increase, decrease)	Products	Tenor (Months)	Outstanding (USD 000's)	Limit (USD 000's)
	Treasury Settlement limit (Payments, FX spot) Debt securities **Commercial**	 Spot 60		

Deal Structure/Collateral/Legal documentation:
Recommendation:
SIGN-OFF

Relationship Manager:	Head of Financial Markets:	Head of Business Development:

Completed by: Risk Management Department

<table>
<tr><th colspan="5">CREDIT APPLICATION REMARKS/ASSESSMENT</th></tr>
<tr><td colspan="5">BACKGROUND SUMMARY:</td></tr>
<tr><td>RISK PROFILE</td><td colspan="2">☐ AAA to A
☐ BBB
☐ BB
☐ Below BB</td><td>USD current exposure</td><td>USD exposure With new deal</td></tr>
<tr><td>COUNTRY RISK</td><td colspan="2">☐ China
☐ United Kingdom
☐ United States of America
☐ Europe</td><td>USD current exposure</td><td>USD exposure With new deal</td></tr>
<tr><td>INDUSTRY</td><td colspan="2">☐ Sovereign/Government
☐ Financial Services
☐ Real Estate
☐ Retail/ Wholesale trade
☐ Business Services
☐ Mining & Energy
☐ Manufacturing
☐ Construction/ Infrastructure</td><td>USD current exposure</td><td>USD exposure With new deal</td></tr>
<tr><td rowspan="4">EXTERNAL CREDIT RATINGS</td><td>Rated by:</td><td>Moody’s</td><td>S&P</td><td>FITCH</td></tr>
<tr><td>Long-term rating</td><td></td><td></td><td></td></tr>
<tr><td>Outlook</td><td></td><td></td><td></td></tr>
<tr><td>Rating date</td><td></td><td></td><td></td></tr>
<tr><td>INTERNAL CREDIT RATING</td><td>Country Rating:</td><td>Country outlook:</td><td>Obligor/Issuer rating:</td><td>Obligor/Issuer Outlook:</td></tr>
<tr><td rowspan="2">DAC 6 Checklist</td><td>Cross-border Borrower (UK/EU)</td><td>Syndicated (MLA in UK/EU)</td><td>Exempt borrower (Gov/FI/ exchange)</td><td>Hallmark breaches (Complex/Purpose)</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">RISK DATA</td><td>RAROC:</td><td>PD:</td><td>LGD:</td><td>ECL:</td></tr>
<tr><td>FINREP Type:</td><td>FINREP Code:</td><td>HO Default Cat:</td><td>IFRS 9 Stage:</td></tr>
<tr><td>FINANCIAL HIGHLIGHTS</td><td colspan="2">Minimum 3 years:</td><td></td><td></td></tr>
<tr><td>ANALYSIS</td><td colspan="4"></td></tr>
<tr><td rowspan="2">RISK MITIGATION</td><td colspan="2">Risk</td><td colspan="2">Mitigation</td></tr>
<tr><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>GROUP RELATIONSHIP</td><td colspan="4"></td></tr>
<tr><td>Recommendation</td><td colspan="4"></td></tr>
<tr><th colspan="5">SIGN-OFF</th></tr>
<tr><td colspan="2">Head of Credit Risk:</td><td colspan="3">CRO:</td></tr>
</table>

18 Appendix F – Amendment/Waiver/Consent/Extension

中信银行 CHINA CITIC BANK 伦敦分行 LONDON BRANCH

Credit Memo

Amendment/Waiver/Consent/Extension

Completed by:
Relationship Manager/ Business Development

	Credit Application
X	Amendment
	Waiver
	Consent
	Annual Review Extension
	Others
	Urgent – reply by:
	ASAP- not later than:
X	Normal Process

Name:				
Customer number:		Relationship Manager:	Business Group (Parent/Ultimate owner):	
Date:	Review date:	Purpose:		
Country:	Country: Risk	Country code:	Industry:	KYC status/AML risk rating:

FACILITIES /PRODUCTS				
Status	Products **Commercial**	Tenor (Months)	Outstanding (GBP)	Limit (GBP)

6. Request

7. **Comments and Analysis of the request**

Recommendation:

SIGN-OFF		
Relationship Manager:	Relationship Manager:	Head of Business Development:

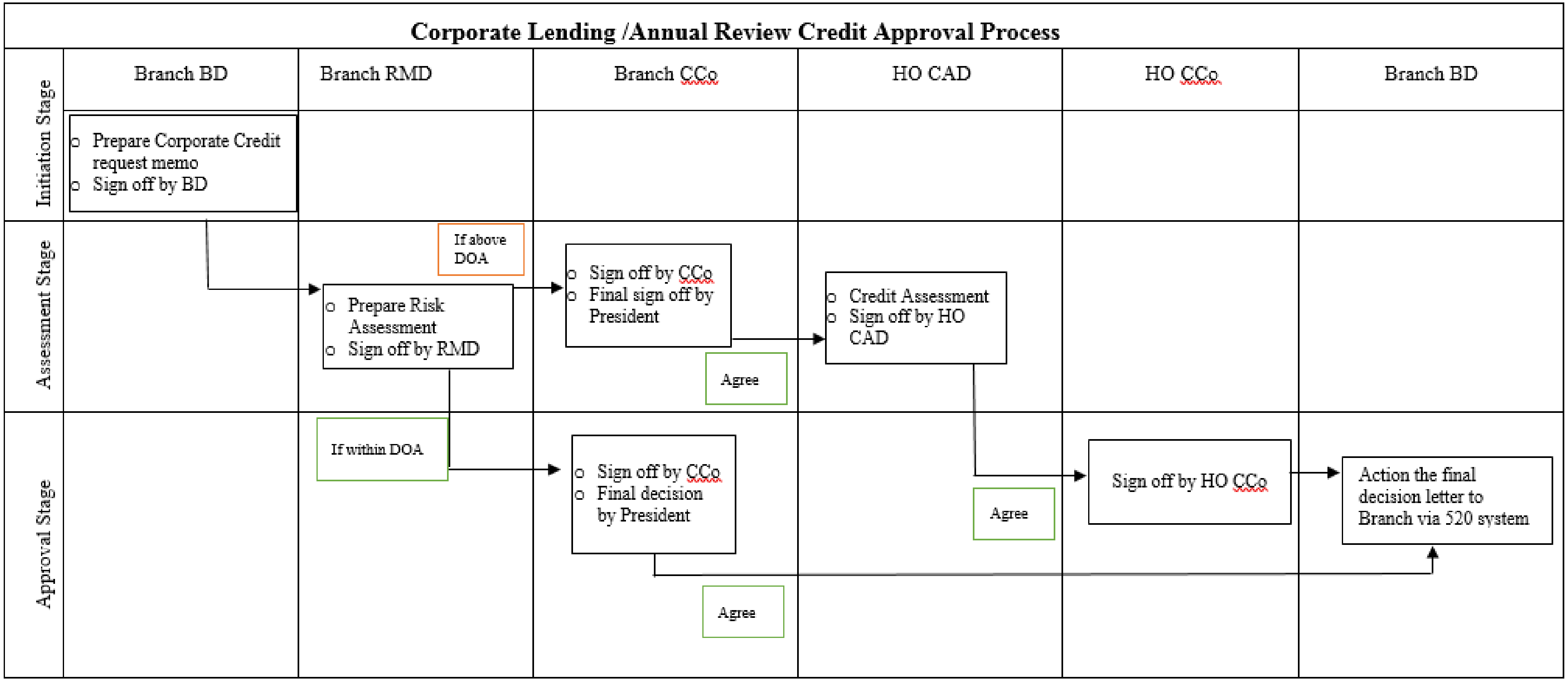
Completed by: Risk Management Department

CREDIT REMARKS: data as at XX/XX/XXXX				
Comments and Analysis of the Request				
EXTERNAL CREDIT RATINGS	Rated by:	Moody's	S&P	FITCH
	Long-term rating			
	Outlook			
	Rating date			
INTERNAL CREDIT RATINGS				
Recommendation				
SIGN-OFF				
Credit Analyst		Risk Manager		

Approved/Final	**CRO**	**Date:**

Recommend to CCo with Comments	**CRO**	**Date:**

19 Appendix G – Corporate Credit Approval Process



Business Development Department ("BD") London Branch propose the limits to Risk Management Department ("RMD"), the request should specify:

- Business Group (Parent/Ultimate owner)
- Legal Entity
- Country of Risk
- Type of Request
- Request Deadline
- Purpose and rational of request

- Client Background
- Key Terms: Products, Currencies, Loan Amounts, Tenors, Interest Rate, Repayment Schedules, Covenants etc.
- Key Risks and Mitigants
- Recommends
- Support docs

RMD takes the following responsibilities:

- Credit analysis
- Internal Credit Rating mapping to HO Internal Credit Ratings
- Assess maximum credit limits under local delegated authority
- Assess currencies, products and tenors requested
- Presents to the Branch CCo

The Branch CCo:

- Challenge limit requests (consider Credit Risk Appetite requirements)
- Approve limits for the Branch
- If above the local delegation level, Branch CCo agree limits to be sent to HO (“Head Office”) Credit Approval Department (“CAD”)

Head Office CAD:

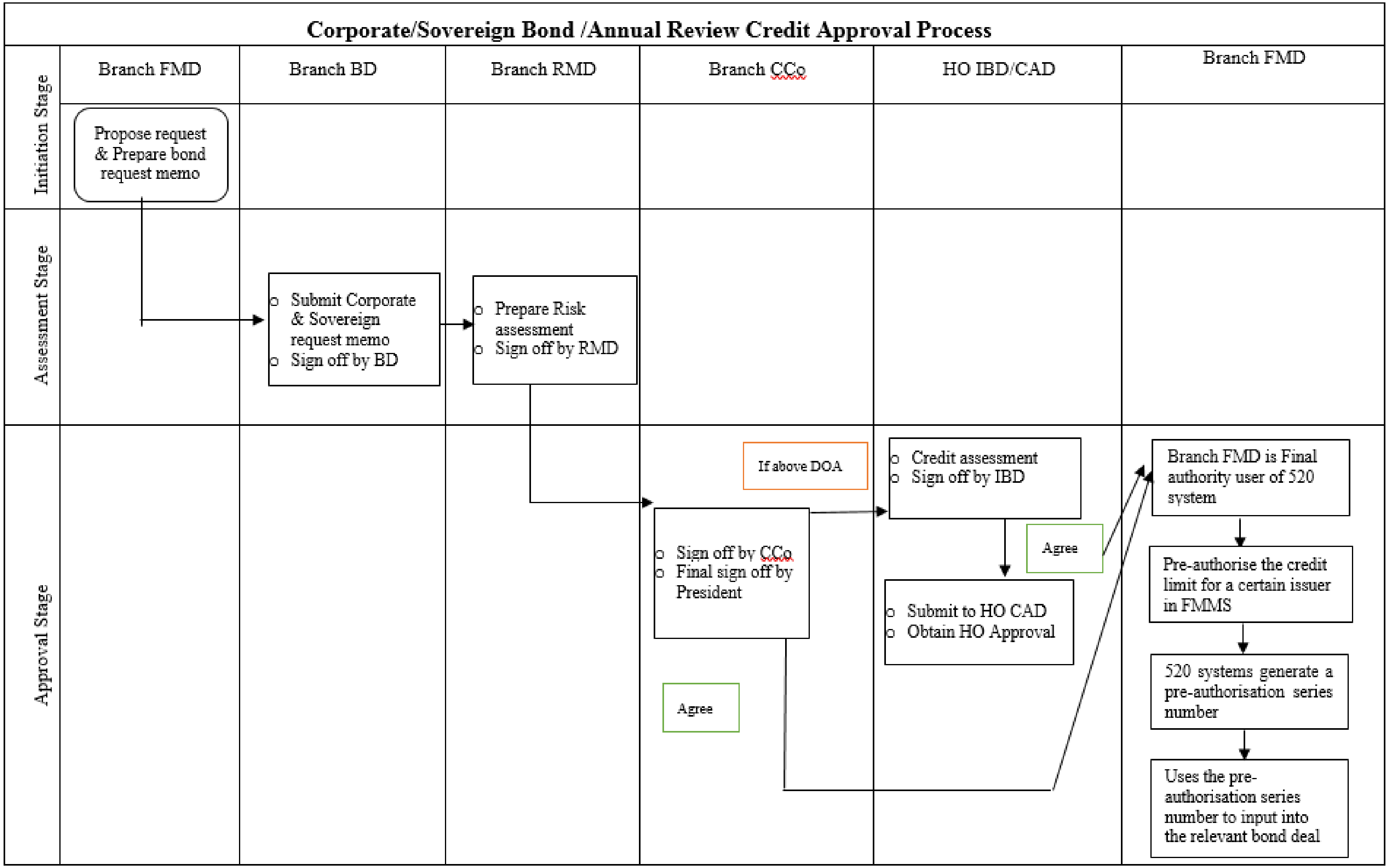
- Consider Branch limits request
- If the limit approved by HO, CAD should grant the formal approval letter to the Branch via 520 system.

RMD London Branch

- Monitor limits and exposure on daily basis
- Report risk profile to Branch CCo/ManCo (Monthly)
- Report risk profile to HO (Quarterly)

All above limits are reviewed on annual basis using the same credit approval procedure as a new request.

20 Appendix H – Sovereign/Corporate Bond Credit Approval Process



Financial Market Department ("FMD") London Branch propose the limits to BD via email, the request should specify:

- Counterparty Name
- Corporate Bond or Sovereign Bond Details: Amounts, Currencies, Tenors, Interest Rate
- Country of Risk
- Purpose and rational of request

BD London Branch propose the requests to RMD London Branch, the request should:

- Short term request memo (please see the format in appendix C)
- Provide the consolidated Corporate or Sovereign limit and exposure

RMD takes the following responsibilities:

- Short form credit analysis (please see the format in appendix C)
- Mapping External Credit Assessment Institution ("ECAI")'s to HO internal credit rating
- Assess maximum credit limits under local delegated authority
- Assess currencies, products and tenors requested
- Presents to the Branch CCo

The Branch CCo:

- Challenge limit requests (consider Credit Risk Appetite requirements)
- Approve limits for the Branch
- If within Local delegation authority,

  -the final approval will be issued through 520 system;

  -London FMD pre-occupy the credit limit for a certain issuer in FMMS;

  -520 systems generate a pre-occupied series number;

-London FMD trader uses the pre-occupy series number to input into the relevant bond deal in FMMS;

-Finally, Trader can activate the transaction and take up the credit limit.

- If above the local delegation level, Branch CCo agree limits to be sent to HO IBD

Head Office IBD:

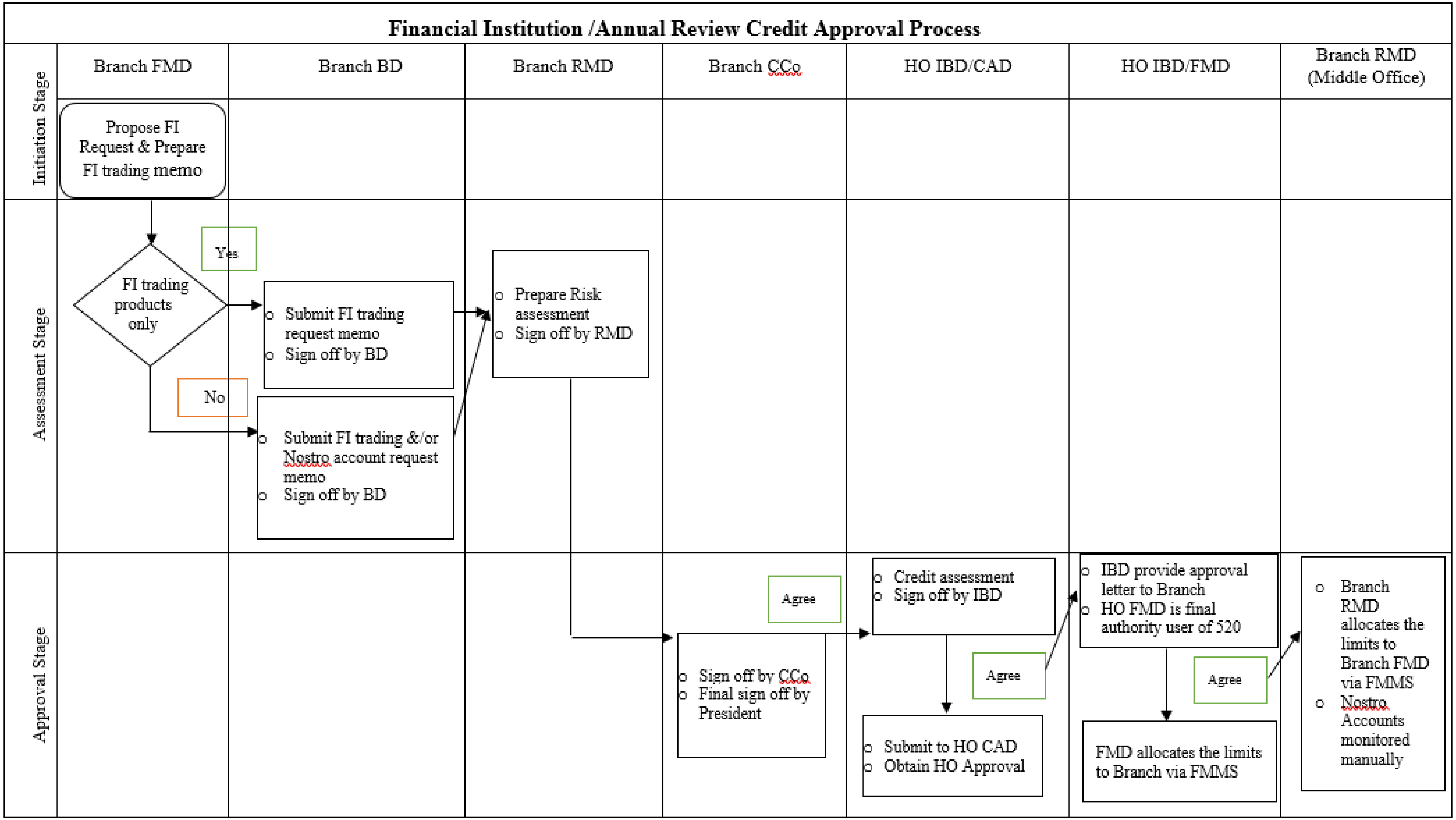
- Consider Branch limits request
- HO grant the formal approval letter to the Branch *via* 520 system and the Branch is the final authority user of 520 system
- London FMD pre-occupy the credit limit for a certain issuer in FMMS;
- 520 systems generate a pre-occupied series number;
- London FMD trader uses the pre-occupy series number to input into the relevant bond deal in FMMS;
- Finally, Trader can activate the transaction and take up the credit limit.

RMD London Branch (Middle Office)

- Monitor limits and exposure on daily basis
- Report risk profile to Branch CCo/ManCo
- Report risk profile to HO (Quarterly)

All above limits are reviewed on annual basis, and same credit approval procedure as new request.

21 Appendix I –Financial Institutions Credit Approval Process



FMD London Branch propose the limits to BD off-line (email or memo) the request should specify:

- Counterparty Name
- Country of Risk
- Legal entities to trade with including all Branches/Subsidiaries
- Products
- Currencies
- Tenors
- Purpose and rational of request

BD London Branch propose the requests to RMD London Branch (off-line), the request should:

- Propose the combined FI limits including FMD request and Nostro accounts
- Credit request memo

RMD takes the following responsibilities:

- Credit analysis
- Mapping ECAI's to HO internal credit rating
- Assess maximum credit limits under local delegated authority
- Assess currencies, products and tenors requested
- Presents to the Branch CCo

The Branch CCo:

- Challenge limit requests (consider Credit Risk Appetite requirements)
- Approve limits for the Branch
- Agree limits to be sent to HO IBD

Head Office IBD:

- Consider Branch limits request
- If the limit approved by HO, IBD will provide the formal approval letter to the Branch

- If FI trading limit (including FI bond) approved, HO FMD allocates the limits to Branch via FMMS system (HO reserves the right to monitor and re-allocate the limits, if not utilised).
- If Nostro account limit approved, IBD allocate the limits to Branch offline.

RMD London Branch (Middle Office)

- Allocate the HO FMD limits to FMD London Branch in FMMS system (Products)
- Monitor limits and exposure on daily basis
- Report risk profile to Branch CCo/ManCo (Monthly)
- Report risk profile to HO (Quarterly)

All above limits are reviewed on annual basis, and same credit approval procedure as new request.

22 Appendix J – Credit Classification

Level of Classifications	Days Overdue	Financial Risk	Credit Risk	Business Risk	Management Risk	Credit/Legal Risk
Normal	★ The principal and interest rates have not been overdue.	★ Strong financial strength, repayment capabilties and profitability, stable net operational cash flow and sufficient undrawn debt.	★ 1. The borrower has a good credit history in our Bank, the repayment will be strong, and there is no overdue interest; ★ 2. The borrower's the People's Bank Of China (PBOC) credit record is good, no bad debt record such as overdue interest payment.	1. Strong business strength, able to handle and overcome both internal and external extreme adverse changes. 2. The project is progressed well, and there were no major changes or other unfavorable factors that could affect the loan repayment capabilities.	Stable senior management team and board members	The borrower has a strong credit record, can meet the funding needs with low financing costs. The borrower has many financing resources and also has strong domestic and international capital market financing capabilities.
Normal-	★ The principal and interest rates have not been overdue. ★ Low-risk business overdue within 60 days (inclusive).	★ General financial strength, stable net operational cash to meet the requirements to repay the debt, or although there are certain degrees of fluctuation in some key financial indicators, such as the net opertional cash flow, it could still meet the needs to repay the debt.	★ The borrower has a good credit histroy in our Bank and external banks, and has good repayment intention. The borrower can repay the principal and interest on time.	General business strength, still could handle and overcome general internal and external adverse changes.	Relatively stable senior management team and board members	The borrower has a good credit record and there are no non-performing loan records in other banks.
SPECIAL MENTION	★ The principal or interest has not been overdue or overdue less than 30 days (inclusive). ★ Low-risk business overdue 61 days - 90 days (inclusive). The loans in other banks were also overdue.	1. The financial information provided by the borrower is obviously flawed (i.e. an audit report with a qualified opinion); there is public information that has a negative impact on the financial position of the borrower. ★2. The borrower's total loan amount increase significantly within a short period of time and is not proportional to its sales revenue or scale expansion, and the borrower cannot provide a reasonable explanation, as a result, there are evidences to doubt the borrower's financial status and repayment capabilities. ★3. The borrower has certain repayment capabilities and profitability, and net operational cash flow is reduced or obviously fluctuated, but it can still meet the needs to repay the loan. 4. The borrower's dividend payment amount does not match with its profitability, which may impact its repayment capabilities. 5.It is difficult to obtain sufficient information to make regular updates for the progress of medium and long-term projects and forecasting the cash flow positions, therefore, it is difficult to measure whether the project could generate enough cash flow for make the repayment at maturity date.	★ 1. The borrower or guarantor has a short-term default on loans from other banks. 2. The borrower has a good willingness to repay the loan and would like to cooperate with our post-lending management. ★ 3. Refinancing or other funding recourse to repay the existing loan. 4.The borrower did not have significate operating and financial deterioration, but was due to the improperly loan repayment schedule arrangement or the borrower has temporary funding shortage. 5. Change the borrower (legal entity). 6. The guarantee or pledged assets are replaced.	★ 1. The borrower's major shareholders, affiliated companies, subsidiaries or parent company (including foreign parent company) has undergone significant adverse changes; the borrower's major shareholders have withdrawn or been merged; there is a significant transcation amount between the borrower and its affiliated company. Shareholders are suspected of misappropriating to use the borrower's funds. ★ 2. The borrower's affiliated companies (including the guarantor) has certain risks and there are sufficient evidences to prove that the risk will be transmitted and affect the credit asset recovery of our Bank. 3. The long-term delay of the project or major changes in the original plan of the project have had a negative impact on the project, which has weakened the borrower's ability to repay. Or it may be difficult to obtain sufficient information to make regular updates to the progress of medium and long-term projects and their cash flow status, so it is difficult to determine whether the project can generate a sufficient cash flow to repay the loan on the maturity date.	1. Significant changes in management (such as large-scale changes in senior management or key leaders resigned). 2. Corporate restructuring may have an adverse impact on our bank's claims. 3. The actual controller is subject to restrictions on personal freedom or major accidents, diseases, etc., which cause the negative impact on the business operation.	1.Other banks request the borrower to repay the loan in advance, and reduce the exposure for the borrower. 2.The guarantor's credit status is in doubt, there is a declining in the value of the collateral, or signs of losing control of the collateral. 3. The regulatory organisation is conducting the investigation of the borrower due to some negative news or problems found in routine investigations, which may affect our evaluation in the borrower's repayment capabilities.
SPECIAL MENTION-	★ The principal or interest is overdue from 31 days to 90 days (inclusive). ★ Low risk business overdue 91 days - 180 days (inclusive)	1. Relatively weak financial performance, and two or more key financial indicators (such as interest cover, asset liability ratio, asset or capital profitability ratio, liquidity ratio, asset turnover ratio, etc.) have fallen by more than 20%, or far below the industry average. ★2. The borrower's net operating cash flow can no longer meet the needs of loan repayment, and its ability to repay the principal and interest, which generates from general business operation has problems. However, the borrower's net cash flow can basically meet the needs of debt repayment by reducing investment, disposing of non-core assets, external funding, etc.,	★ The borrower's willingness to repay is poor, and it does not cooperate with our post-lending management and recycling of the loan.	★ 1. There are relatively serious problems in the business management (i.e. the loan is not used according to the specified purpose), if the problem persists, it may affect the repayment of the loan. 2. The project loan has significant adverse adjustments to loan repayment, such as policy adjustments, investment gaps, investment delays, extension of construction period, and interest rate exchange rates.	Senior management involves legal proceedings or judicial investigations that may adversely affect loan repayment capabilities.	★ 1. The borrower has the suspicion of escaping bank loans (abscond) in the form of mergers, reorganizations and splits. 2. The borrower defaults on other bank loans or involves the legal dispute which main causes a large amount of compensation.

Level of Classifications	Days Overdue	Financial Risk	Credit Risk	Business Risk	Management Risk	Credit/Legal Risk
SUB-STANDARD+	★ The principle is overdue (including after the extension period) for more than 90 days or the interest is overdue for more than 90 days, but not more than 180 days. ★ Low risk business overdue 181 days - 360 days (inclusive)		★ After the non-performing loan restructuring, the interest repayment has been on time during the 6-month observation period, and the loan principal can be repaid in line with the restructuring plan.	★ Within six months of the loan restructuring, the borrower's business operation gradually returned back normal.		
SUB-STANDARD	★ 1. The principle is overdue (including after the extension period) for more than 180 days or the interest is overdue for more than 180 days, but not more than 360 days. Low risk is also overdue for more than 360 days. 2. Off-balance-sheet advanced repayment, such as letters of credit, guarantees and acceptances.	★1. The borrower's repayment capability and profitability are weak, net operating cash flow can not meet the needs of debt repayment, it is difficult to improve in a short time, and it is difficult to obtain new funds. General income and guarantees can not make sure our bank to fully recover the principal and interest. Banks need to take the repossession actions to repay loans by disposal the charged assets. It is expected that the ultimate loss of loans will be small or no loss. ★2.The borrower has sustained financial difficulties, and it is difficult to obtain new funds. They cannot repay the debts of other creditors. General income and guarantees can not make sure our bank to fully recover the principal and interest. Banks need to take the repossession actions to repay loans by disposal the charged assets. It is expected that the ultimate loss of loans will not exceed 30%. 3. The borrower has suspected to provide the counterfeit financial reports and other information to fraud the Bank.	★ 1. The borrower's loan from our Bank or other financial institutions has overdued over 90 days with a large amount ★ 2. Restructuring loan should be classified as at least subgraded. A restructured loan is that our Bank need to change the repayment terms in loan agreement due to the deterioration of the borrower's financial situation or its inability to repay the loan. 3. The borrower escapes from repaying for the bank debt in purpose.	★ 1. The borrower can still maintain the production and operation, however, the full amount of loan repayment has to not only depends on the net operational cash flow, but also the implementation of guarantees or other sources of repayment. ★ 2. The borrower has continued financial difficulties and barely maintained major production operations. ★3. Project loan: The project has been seriously delayed, the project expenditure is heavily exceeded, and the actual cash flow of the project is much lower than the predicted cash flow and cannot be repaid in full as scheduled.	1. The Borrower's internal management team are confusing, affecting the timely and full settlement of the debt. 2. The ultimate controller of the Borrower is escaping, or out of the contact, and maliciously evades the bank debt.	The borrower is caught in an economic legal dispute, or the borrower has not paid off the debt by court order or the borrower is in arrears with the tax payable.
DOUBTFUL	★ The principal and interest are overdue for more than 360 days.	★ The borrower's mainstream business has deviated from the general production and operation, the source of income is unstable, and the borrower has lost the ability and willingness to repay. Even if the guarantee is exercise, a loss of 30% to 95% is expected.	★ 1. The loan is expected to have a substaintial loss, but there are factors such as reorganization, merger, merger, collateralization and pending litigation (arbitration) of the borrower, and the amount of the loss cannot be estimated. 2. The guarantor has certain repayment capability, but after repeated negotiations, the borrower and the guarantor obviously have no willingness to repay or refuse to repay (compensation).	★ 1. Although the borrower is insolvent, the main production and operation activities are still going on, and there is still a small possibility of returning back normal production and operation. ★ 2. The borrower is in a stage of suspension or semi-discontinuation; the fixed assets project is in a stage of suspension or slow construction.	The internal management of the borrower are very confusing, which seriously affects the settlement of debts.	
Loss	★ The principal and interest are overdue for more than 360 days.	★Although the business activities of the production units have not stopped, there is no market for the products, the borrower are insolvent, the losses are significantly and are facing the bankruptcy, and the government will not provide the funding to repay the loan, and has confirmed with Borrower that they can not repay the loan. ★After all possible measures or all necessary legal procedures have been taken, the principal and interest still can not be recovered, or only a very small portion can be recovered, with a loss of more than 95%.		★ 1. The borrower and the guarantor are declared bankrupt according to law, and the loan cannot be repaid after the settlement is completed. ★ 2. The borrower is revoked, closed, dissolved, and terminated as a legal entity, and the loan that has been confirmed to be uncollectible. 3. Although the borrower has not been terminated as the legal entity qualification according to law, the production and business activities have been stopped, and the borrower has existed in name only, and no possibility to recover the business, and the loan that has been confirmed cannot be repaid. 4. The borrower suffers from a major natural disaster or accident, has a huge loss and cannot obtain insurance compensation, or is unable to recover the loan after the insurance compensation is paid off.		★ 1. The borrower and the guarantor cannot repay the loan , the bank sued the borrower and the bank is still unable to recover the loan after the court enforces the borrower and the guarantor. 2. Because the borrower is involved in fraud, bureau of public security has filed a case for investigation and has been unable to recover the loan after recovery. 3. The loan claim of the borrower and the guarantor has been overdued the deadline, or our internal management faulties such as the damage and loss of the important legal documents such as the loan contract, the bank cannot recover the loan from the borrower or the guarantor (subject to the law and compliance of the head office). The audit department determines and investigates the relevant personnel responsibility.

23 Appendix K – Early warning Signals (HO template)

Early Warning System

HO define risk events into three levels: Severe warning signal, general warning signal and risk factors. Severe warning signals include 48 scenarios (see below), general warning signals have 77 scenarios and risk factors include 71 scenarios (On file in RMD). We have reviewed the HO table and will implement as follows:–

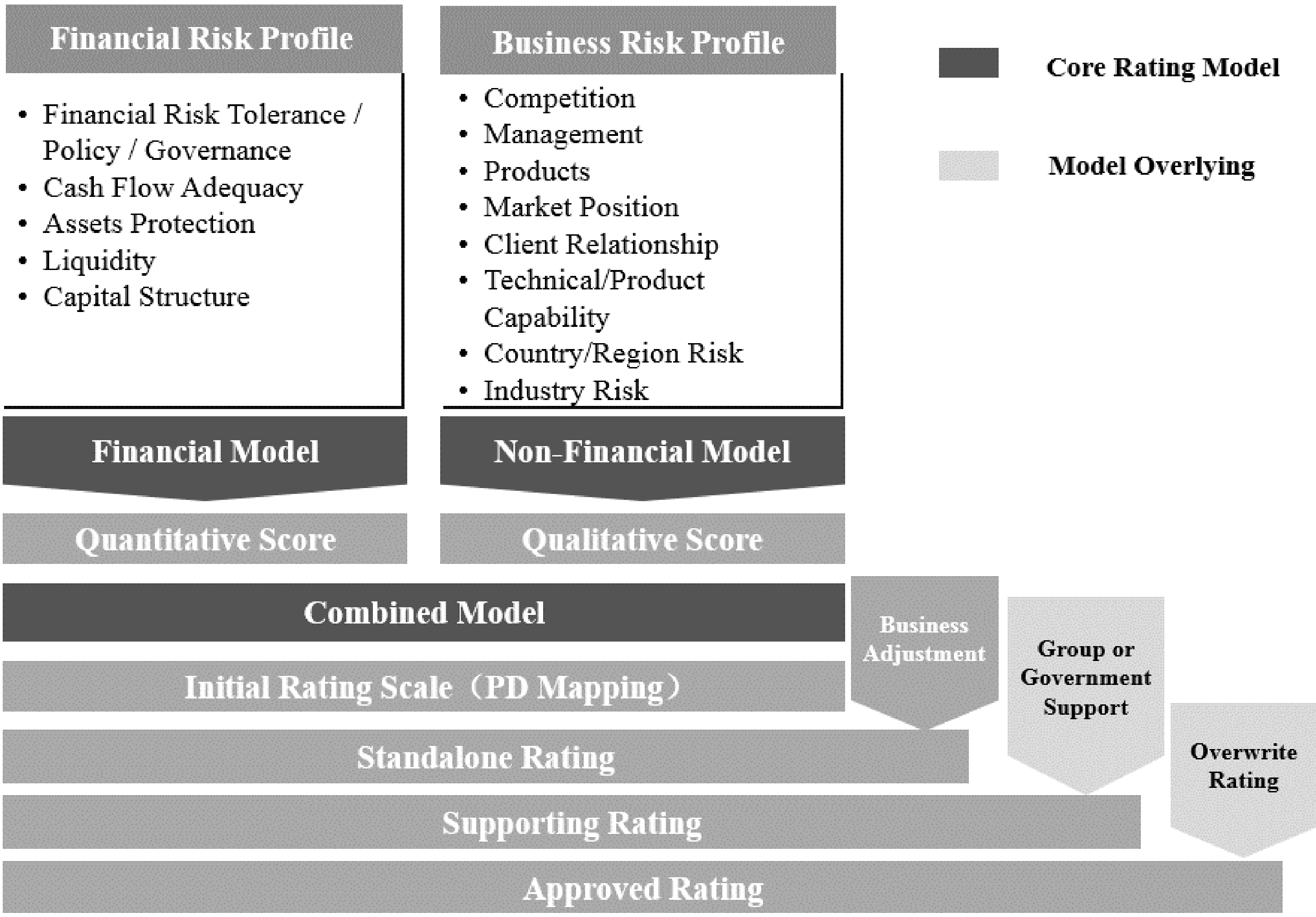
HEAD OFFICE EARLY WARNING LIST		CNCBLB Monitoring
Credit risk warning signal table.		
	Severe warning signals include, but are not limited to:	
1, .	The debtor is declared a credit default user by the regulatory authorities or other financial institutions;	
2, .	Non-performing, overdue, advance payment or unpaid interest in other bank's credit;	
3, .	There is obvious evidence that there is a greater risk that the debtor will fail to repay principal and interest in our bank.	
4, .	The debtor has defaulted on the principal and interest of other financial institution, or other bank credit has been restructured (including the credit extension, refinancing risk, etc.);	
5, .	The debtor has Overdue principal/interest/advance payment more than 5 days in our credit facility;	
6, .	The senior management of debtor exposed substantial divergence of opinion which might threaten the debt repayments	
7, .	Corporate key managers involved in economic/criminal cases or sudden disappearances or accidental deaths;	
8, .	The actual controller of the debtor has a serious bad credit record, or the actual controller is found to have bad conducts (prostitution, gambling, drug);	
9, .	Major shareholders, subsiadiaries or parent companies of the debtor have adverse changes, which may affect the repayment of loan principal or interest on schedule;	
10, .	Major shareholders or related-parties of the debtor occurred substantial institutional reforms such as merger, acquisition, restructure, split or other ownership reform.	
11, .	Equity structure of debtors occurred substantial changes or Merger& Acquisition.	
12, .	The debtoror or its controlling shareholders are operating in suspension, closure,liquidation, dissolution, restracture, administration, filing for bankruptcy, processing bankruptcy, declaration of bankruptcy, revocation of business license, revocation, involvement in ilegal fund raising or any litigation, arbitration or criminal or administrative penalty that has adverse consequences for its business or property;	
13, .	The related party transactions have increased substantially, and the shareholders are suspected of misappropriating the debtor's funds;	
14, .	The borrower defrauds bank funds.	
15, .	The debtor claims to restructure to avoid bank debts;	
16, .	The debtor's bank account or assets are sealed or frozen by the judicial authority, there is a greater risk to our bank's credit business;	
17, .	The borrower's assets are seized or frozen;	
18, .	The debtor involves in illegal fund-raising, tax evasion, smuggling, foreign exchange fraud, false invoices;	
19, .	The debtor uses fraudulent means to defraud / arbitrage loans to seek illegal income or relieve financial pressure;	
20, .	The debtor has a severe safety accident or quality accident during the construction period or production process, which has a adverse impact on the production and operation;	
21,.	The debtor violated relevant laws and regulations, regulatory requirements or industry standards such as production safety, environmental protection, and caused an accident;	
22, .	The borrower's loan qualification is revoked (or stopped using);	
23, .	The debtor was ordered to suspend production for rectification;	
24, .	The debtor has ceased production;	
25, .	The debtor's construction in progress is suspended, delayed, or seriously delayed;	
26,.	The debtor is facing bankruptcy due to poor management and major mistakes in decision-making, and its solvency is seriously deteriorated;	
27, .	The debtor's debt-to-asset ratio is too high, or the debtor's assets are insufficient to cover the debt;	
28, .	The debtor obtains a large amount of financing through illegal funding;	
29,.	The debtor's important suppliers and downstream customers terminate cooperative relationships with them, or significantly reduce the cooperation;	
30, .	The internal credit rating of the debtor fell below the entry requirement;	
31, .	The borrower's misappropriation of the loan is inconsistent with the contractual use, which is expected to have an adverse effect on the actual repayment;	
32, .	The negative or unqualified opinion of the auditor appears in the debtor's financial report;	
33, .	Dispose of the mortgaged property without our consent;	
34, .	Due to poor management of the guarantor, the financial situation has deteriorated and the guarantee ability has declined;	
35, .	The collateral has become invalid due to incomplete mortgage or pledge procedures, or because our bank has accepted forged invalid pledge certificates;	
36, .	Adverse changes have taken place in the collateral management, our bank has lost control of the collateral which caused by sealed, frozen, or seized;	
37, .	Disputes over the collateral ownership of our bank may lead to legal disputes;	
38, .	Our bank's credit files are incomplete, legal documents related to the loan are missing, or important mortgage certificates are missing, damaged or invalid	
39, .	The debtor repeatly mortgaged the our bank's collateral;	
40, .	The guarantor's credit status has weakened; or the valuation of the collateral has fallen dramatically;	
41, .	The debt guaranteed by the debtor presents a greater risk, and the debtor's solvency is adversely affected;	
42, .	The debtor encounters earthquakes, floods, typhoons, fires or other serious natural disasters, which have a substantial impact on loan repayment, and the expected loss is relatively large (more than 50%);	
43, .	The debtor violated environmental protection laws and regulations and has not yet completed rectification;	
44, .	The debtor has violated production safety regulations and has not yet completed rectification;	
45, .	The debtor's production technology is facing out and has not been eliminated or upgraded;	
46, .	The debtor's occupational disease prevention and control measures are not up to standard and have not yet completed rectification;	
47, .	If there is no timely access to environmental assessment, safety production, and occupational health approval procedures in project financing project;	
48, .	The customer's AML risk assessment level is high.	

24 Appendix L – Credit Rating Methodology

Head Office takes responsibility of developing, updating and maintaining of the corporate internal rating methodology and relevant systems, which provide the rating results for both Chinese and International Corporate Clients and Real Estate Asset-Back Finance.

In line with HO existing policies, there is no internal rating model available for Financial Institutions, Sovereign and Project Finance.

Corporate Ratings Framework:



Models Key Risk Factors:

Quantitative Risk Dimension	Key Risk Ratios (HO Internal Credit Risk Model)
Profitability	Increase rate on 'Operating Profit'
Cash Flow	Increase rate of 'Net Operating Cash Flow'
Leverage	• Total Debt/EBITDA • Total Debt/EBIT • Total Debt/Equity • Net Debt/Equity
Operational Capacity	• Trade Receivable ratio • Current ratio
Profitability	Operating Profit Margin, Net Assets Yield, Gross Profit Margin etc.
Growth Rate	Revenue
Business Scale	• Total Assets • Net Profit

Qualitative Risk Dimension	Key Risk Factors (HO Internal Corporate Credit Risk Model)
Corporate Background	• Years in operation • Corporate shareholders rating level
Competitiveness	Industry position
Business environment	• Changes in share price • Changes in corporate bond yields to LIBOR • Litigation or Regulatory penalties • Corporate governance, operational, environmental, safety events

Qualitative Risk Dimension	Key Risk Factors (HO Internal Real Estate Credit Risk Model)
Country Risk	• Location • City • Distance from City center
Business environment	• Type of business • Price reduction headroom • Prices in surrounding area • Project progress (if development)

Probably of default mapping

HO Internal Rating	Upper Limit	Lower Limit	PD
AAA+	0.00%	0.06%	0.05%
AAA	0.06%	0.15%	0.11%
AA+	0.15%	0.27%	0.21%
AA	0.27%	0.50%	0.39%
A+	0.50%	0.88%	0.68%
A	0.88%	1.35%	1.10%
BBB+	1.35%	1.90%	1.61%
BBB	1.90%	2.66%	2.24%
BB+	2.66%	3.70%	3.10%
BB	3.70%	5.00%	4.25%
B	5.00%	6.40%	5.58%
CCC	6.40%	8.00%	7.09%
CC	8.00%	10.00%	8.86%
C	10.00%	25.00%	17.24%
C-	25.00%	100.00%	31%
D	100.00%	100.00%	100.00%

25 Appendix M – Risk Weighted Asset (RWA) calculation

Head Office takes responsibility of developing, updating and maintaining of the RWA methodology and relevant systems, which provides the risk weighted exposure for HO capital reporting.

In line with HO existing policies, CNCBLB will calculate RWA to measure and monitor exposures against RAS limits. The HO model had been developed using the following BASEL formula:

$$RWA = EAD \times K \times 12.5$$

Where K is:

$$K = \left[LGD \times N\left(\sqrt{\frac{1}{1-R}} \times G(PD) + \sqrt{\frac{R}{1-R}} \times G(0.999) \right) - PD \times LGD \right] \times \left\{ \frac{1}{1-1.5 \times b} \times [1 + (M-2.5) \times b] \right\}$$

1. The RWA excel model provided by HO requires the following inputs:**EAD (**Exposure at Default), the net exposure to the obligor, counterparty or issuer.
2. **PD** (Probability of Default), determined by the mapping of the 'Internal Credit Rating' to the HO approved PD matrix.
3. **LGD** (Loss Given Default), unsecured loans default to 45%. Security/Collateral must be taken into account in order to reduce the LGD (EG: Cash cover is 0%, Commercial Mortgages are 35%).

USD v EUR		€ 0.8997									
USD v GBP		€ 0.7661									
USD v CNY		€ 6.9146									
			EAD	PD	LGD	M	R	b	K	RW（K*12.5*1.06）	RWA
€	28,000,000.00	MEDOC	$ 31,123,214.58	0.0068	0.45	2.50	0.205284	0.153411	0.063753	0.844728	26,290,663.23
€	19,061,546.63	MEDOC	$ 21,187,735.93	0.0068	0.45	2.50	0.205284	0.153411	0.063753	0.844728	17,897,882.25
€	39,820,000.00	KTK	$ 44,261,657.31	0.0068	0.15	2.50	0.205284	0.153411	0.021251	0.281576	12,463,026.31
£	60,000,000.00	10 UBS	$ 78,317,735.05	0.0068	0.35	2.50	0.205284	0.153411	0.049586	0.657011	51,455,611.63
$	60,000,000.00	TRAFIGURA	$ 60,000,000.00	0.0039	0.45	2.50	0.218987	0.178996	0.049257	0.652658	39,159,502.23
$	54,000,000.00	BAIC	$ 54,000,000.00	0.0039	0.45	2.50	0.218987	0.178996	0.049257	0.652658	35,243,552.01
£	25,000,000.00	COMM	$ 32,632,389.60	0.0005	0.15	2.50	0.237037	0.286115	0.005240	0.069434	2,265,801.29
€	8,000,000.00	ICBC	$ 8,892,347.02	0.0005	0.15	2.50	0.237037	0.286115	0.005240	0.069434	617,432.30
$	3,002,522.60	Citic Int	$ 3,002,522.60	0.0005	0.15	2.50	0.237037	0.286115	0.005240	0.069434	208,477.52
$	56,261.51	Soc gen	$ 56,261.51	0.0005	0.15	2.50	0.237037	0.286115	0.005240	0.069434	3,906.47
£	40,000,000.00	O2	$ 52,211,823.37	0.0161	0.35	2.50	0.173677	0.118844	0.067111	0.889214	46,427,504.53
£	61,355,946.00	JD STAR	$ 8,873,390.51	0.0110	0.45	2.50	0.189130	0.133532	0.076445	1.012897	8,987,832.44

26 Appendix N – Risk Adjusted Return on Capital (RAROC) calculation

Head Office takes responsibility of developing, updating and maintaining of the RAROC methodology and relevant systems, which provides the risk adjust return on capital that Business Development and the Credit Committee use to determine if a deal/transaction is feasible for the Branch.

In line with HO existing policies, CNCBLB input the following data into the model:

Income	Deal/Transaction
Estimated exposure/ approval	Tenor
Interest rate expected (eg: Libor +1.5%)	Repricing cycle
Fee Income expected (eg: 50bps)	Credit Rating
Expected costs FTP (Libor + Margin)	Industry
	Currency
	Guarantee method
	Guarantor Credit Rating/Industry
	Mitigation (Collateral)

The RAROC model then calculates the risk adjusted return.

London Branch RAROC Calcuation

Single Business Income **000'**

Note: Loan Tenor>=1 year,estimate daily average size is loan amount.

	Single Business Estimate year end Daily average size	Interest Rate/Fee Income Rate	FTP Price	Operating Income	conomic Capita
Loan	20000	3.63%	2.33%	260	1,379.17
cillary Business	40			40	
			Total	300	1,379

Profit Margin（bps）：	66.33		
Economic Income：	189.67	2.21375	0.05
Economic Profit：	132.67	1.67375	
Provision:			
Single Business RAROC：	**17.62%**		

ECL / Provision should be included but has no impact on the RAROC calculation.

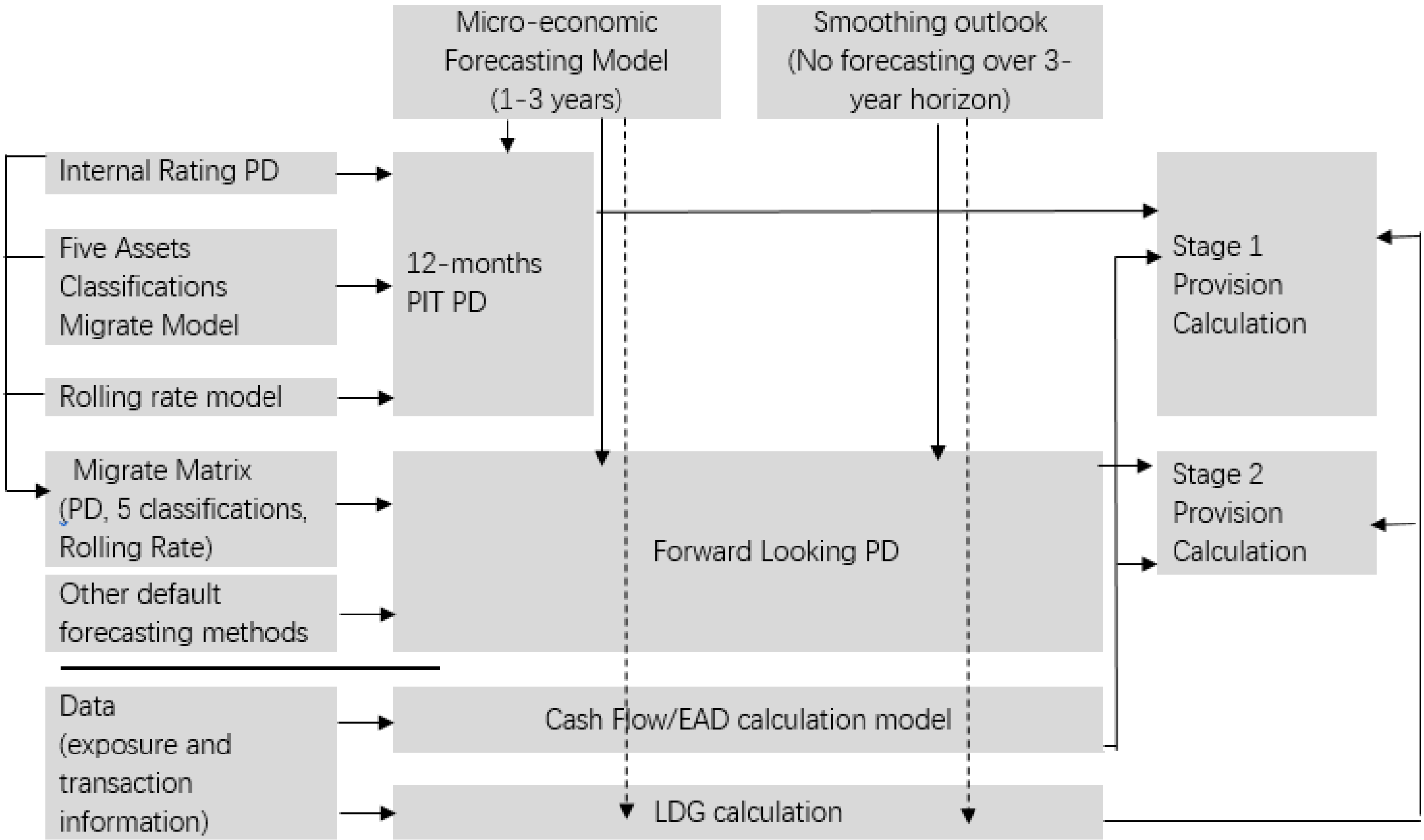
27 Appendix O – HO IFRS9 calculation methodology

Head Office has developed IFRS9 calculation methodology for the Branch requirements in order to measure and report ‘Expected Credit Loss’.

Expected Credit Loss (“ECL”) =Probability of Default (“PD”) * Loss Given Default (“LGD”)* Exposure at Default (“EAD”)

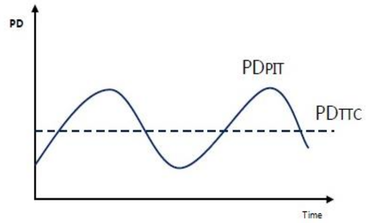
Stages	Formula
Stage 1	ECL=$PD_1 \times LGD_1 \times EAD_1$
Stage 2	$\mathrm{ECL} = \sum_{i=1}^{N} \left(PD_i \times LGD_i \times EAD_i \times \frac{1}{(1+EIR)^{i-1}}\right)$
Stage 3	$ECL = LGD_1 \times EAD_1$ or Impairment calculation on individual asset basis

IFRS9 Calculation Framework



Definitions and Methodologies

	Stage 1	Stage 2	Stage 3
Stage Allocation Criteria	Meet all criteria if applicable: No sign of credit deterioration (IFRS 9.5.5) • ≥30 days past due (capital or interest) • Asset classification 'Normal' • PD ≠1 • No advanced payment	Any exposure that is not included in either Stage 1 and Stages 3 Credit quality deterioration can be observed (IFRS 9.5.5.3)	Clear sign of impairment or credit event • ≥90 days past due (capital or interest) • Asset classification 'Non-performing loan', Substandard, Doubtful and/or Loss • PD=1
PD	**Through the cycle PD** *("PD TTC")* • Assesses the obligor's average credit-worthiness • Translates the financial data into a PD TTC rating • PDTTC does not reflect economic cycle impact • Calculate PD **TTC** from internal rating or external rating **Point-in-time PD** *("PD PIT")* • Assesses the probability of default over the next 12 months; • Converting from PD TTC to PD PIT through forward looking adjustments to reflect the current point of micro-economic impact on the obligor's creditworthiness; • Correlations conversion defined in HO methodology (on file):	**Forward-looking PD** HO Model conducts a regression analysis covering: • Multiple UK historical micro-economic data points and historical UK commercial bank non-performing loan ratio; • Micro-economic scenarios forecasting to calculate a forward-looking PD; • Historical UK micro-economic factors: i.e. GBP, unemployment rate, CPI. • Only conducts the forward-looking adjustments for the two years and the remaining years without adjustments.	**PD=100%** The impairment measurements and write-off decision are recommended by RMD to CRO and approved by CCo. Manual recognition of PD for stage -3 assets in 520 system by RMD and CRO.

<table>
<tr><th></th><th>Stage 1</th><th>Stage 2</th><th>Stage 3</th></tr>
<tr><td></td><td>
</td><td></td><td></td></tr>
<tr><td>LGD</td><td colspan="3">1. Corporate loan and bond exposures:
• Unsecured LGD default rate:
o senior debt 45%
o junior debt 75%
• LGD with collateral:
o EAD (net exposure)
o Haircut with collateral value
o Minimum collateral value level
o Default rates range between 35% to 45% depending on the underlying product
Please refer to details in the Head Office IFRS9 policy – on file with Risk Department
2. Financial Institution LGD:15%</td></tr>
<tr><td>EAD</td><td colspan="3">Key factors:
i) the principal cash-flow payment at time
ii) interest cash-flow payment at time
iii) off balance sheet Credit Conversion Factors (“CCF”)
<table>
<tr><th>Off B/S Assets Type</th><th>CCF</th></tr>
<tr><td>Acceptance Bill</td><td>100%</td></tr>
<tr><td>Letter of Guarantee</td><td></td></tr>
<tr><td>Financing Guarantee</td><td>100%</td></tr>
<tr><td>Non-financing Guarantee</td><td>50%</td></tr>
<tr><td>Loan commitment</td><td></td></tr>
<tr><td>Unconditional and revocable to cancel at any time</td><td>0%</td></tr>
<tr><td>Not unconditional and revocable and cannot be cancel at any time</td><td>75%</td></tr>
<tr><td>Letter of Credit</td><td></td></tr>
<tr><td>Documentary credits within one year</td><td>20%</td></tr>
<tr><td>Documentary credits more than one year</td><td>100%</td></tr>
</table>
Principle Formula:
i) Balance/Sheet EAD = outstanding balance+ accrued interest
ii) Off Balance/Sheet EAD=Capital * CCF
Note: the detailed formula for different stages, please refer to Head Office IFRS9 policy for overseas branch</td></tr>
</table>